CANADIAN
# REAL ESTATE FORUM

SPRING 2022 / ISSUE 89

## INNOVATION LEADS TO SOMETHING DIFFERENT

**VANCOUVER**
Immigration and Autonomous Vehicles Will Contribute to Future Housing Demand

Partnerships and Getting Creative are Key to Getting Good Deals

Where There's a Will, There's a Workplace

**EDMONTON**
World Waking Up to the Edmonton Advantage

Toughing Out Some Tough Conditions

Buyers Taking Note of Edmonton's Lower Cap Rates Amidst Oil and Gas Boom

**MONTRÉAL**
Big Reasons for Montréal Investor Appeal

Walkable Cities Start with Safer Streets

How Emerging New Workplace Realities Will Drive Corporate Real Estate Strategies

# WELCOME BACK TO FACE-TO-FACE FORUMS AND CONFERENCES. THE NEW NORMAL IS ALL ABOUT ADAPTABILITY AND CHANGE.

Roelof van Dijk
Executive Director – Real Estate
Global Finance | Informa Connect

With the easing of public health measures this spring, I hope that everyone has been able to safely get back together and spend time with family and friends. The entire team here at Informa's Canadian Real Estate Forums has been overwhelmed by the support from the commercial real estate and multi-residential community as we have excitedly welcomed everyone back to face-to-face events. It has been amazing to see everyone's eyes light up as they meet and greet old friends and colleagues with elbow or fist bumps and even handshakes.

As the look and feel of our forums and conferences returns to normalcy, the new normal for the commercial real estate market is all about change. From the war in Ukraine impacting food and energy prices, inflation running out of control, office workers returning to the office on a consistent and regular basis, the labour shortage and its impact on owners, operators, consultants and tenants alike, and changing demographic trends, to rising interest rates and its impact on investment decisions as well as business and consumer purchasing decisions. So how do you adapt and pivot to thrive in this changing environment.

Despite these new changes, other trends continue to intensify. The number of companies that have made serious Environmental, Social and Governance (ESG) commitments continues to increase, and we here at the Canadian Real Estate Forums are taking this just as seriously as the rest of the industry. We are striving to run some of the most environmentally friendly conferences, while also incorporating diversity on our panels which increasingly discuss some of the social issues impacting the industry. Furthermore, the impact of the continued adoption of technology throughout the industry cannot be understated, nor can the impact of technology tenants on demand for many types of commercial real estate.

When discussing technology and commercial real estate, Greater Vancouver has long been the poster child. E-commerce and logistics tenants continue to drive demand for industrial space, leaving developers unable to keep up, availability below 1.0% and strong rent appreciation. The Vancouver office market is also attracting big players who are demanding huge footprints, such as Amazon taking well over one million square feet, and well-located new ESG-compliant properties will overachieve. There is so much investor demand in this market that multiple bids are commonplace and there is over $10 in estimated investment demand for every dollar of supply.

Montréal is also seeing strong demand from real estate investors due to its remarkably resilient economy throughout the pandemic boasting some of the strongest GDP growth and lowest unemployment in Canada in 2021; the city's relatively competitive pricing compared to other major Canadian markets; and the strong outlook for future growth. As a result, CBRE reported that the Montréal market saw over $10 billion in investment activity in 2021, and the city's industrial and multi-residential asset continue to see strong interest from new domestic and international investors. The Montréal office market is seeing a flight to quality as tenants look to upgrade their spaces, take advantage of market conditions, and attract employees to return to the office.

Although Edmonton is trailing behind both Vancouver and Montréal, the Edmonton market is transforming, and tech is playing a big part in this transformation. Edmonton's postsecondary institutions and talent pool rank the city among with world's top cities for artificial intelligence and machine learning. The city is also seeing the biotechnology and pharmaceuticals industries advancing and the city is working on becoming a life science hub for Western Canada. Furthermore, there has been over $15 billion in hydrogen production investment already announced, with much more on the way, which could catapult Edmonton to become a global green-energy capital. The city is also strategically located with a rail connection to the Port of Prince Rupert, making it a top choice as a developing inland logistics hub. These attributes make for a compelling story to invest in Edmonton and Alberta.

On behalf of our team, thank you for attending our events to date in 2022. We wish you insightful and successful Forums, as well as optimism for your endeavours throughout the remainder of 2022 and beyond.

All the best,

Roelof

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# Optimism and excitement in commercial real estate as industrial demand tightens and employers plan return to office in 2022

**In this issue of the Altus Report, we discuss real estate investment trends in the Vancouver, Edmonton, and Montreal market areas.**

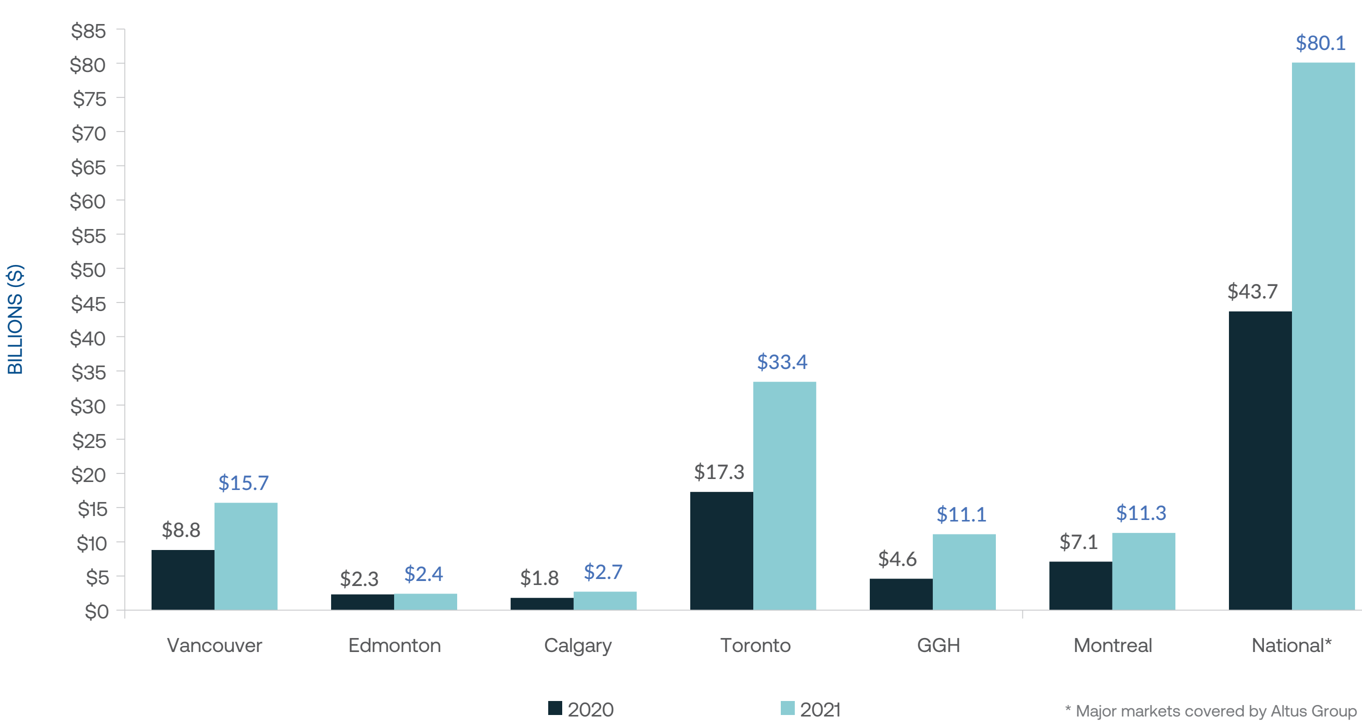
The Canadian commercial real estate market had a strong, yet challenging 2021. Commercial real estate activity faced exposure to closures, public health restrictions, and uncertain investors. However, showing its resiliency, the industry weathered these events throughout 2021, and began 2022 with a high momentum. While 2021 reported an uptick in activity as compared to 2020, there was a tone of cautious optimism in the commercial real estate space throughout the year. However, with restrictions being lifted in the first quarter of 2022, as well as activity levels being elevated, the year has begun with a note of excitement in the industry.

Nationally, investment volume in 2021 totaled just over $80 billion dollars, an 83% rise from the previous year (Figure 1). Transaction counts increased amongst all asset classes, registering a 58% increase from 2020 further attesting to the resiliency of the industry. Vancouver reported a total investment volume of nearly $16 billion, a 75% increase from 2020. Edmonton registered $2.5 billion in investments, a 6% increase over 2020 totals. Meanwhile, Montreal noted an investment volume of $11.3 billion, a 57% increase from the previous year. This is a record investment volume for the Montreal area since 2016, and the first time that the Greater Montreal Area has reported an increase in the double digits. The land sectors (ICI and Residential) performed well throughout 2021 outperforming all other asset classes, composing 39% of all transactions conducted, and 41% of total investment volume. The industrial sector also continued to do well throughout 2021, reporting an investment volume of $16.9 billion, representing 21% of total investments for the year. The multi-family asset class also garnered investor interest, accounting for 18% of all transactions conducted, and 17% of total volume, with an investment volume of approximately $13.9 billion.

According to Altus Group's Investment Trends Survey for Q1 2022, Industrial assets make up three of the top five preferred products (Figure 2). This follows the same trend seen in 2020 and 2021 and is a result of the shift towards e-commerce heightened by the pandemic, as well as the demand for logistics and fulfilment space elevated by ongoing supply chain issues, especially within the last year. Vancouver and Montreal have retained the second and third spots as most preferred markets by investors, with Edmonton taking the second last spot, just before Calgary with all three markets noting an upswing in their momentum ratio. Overall capitalization rates have remained steady as compared to the previous quarter in all four benchmark asset classes, a trend that should continue through 2022. However, cap rates will remain dropping for core assets as these are experiencing strong demand.

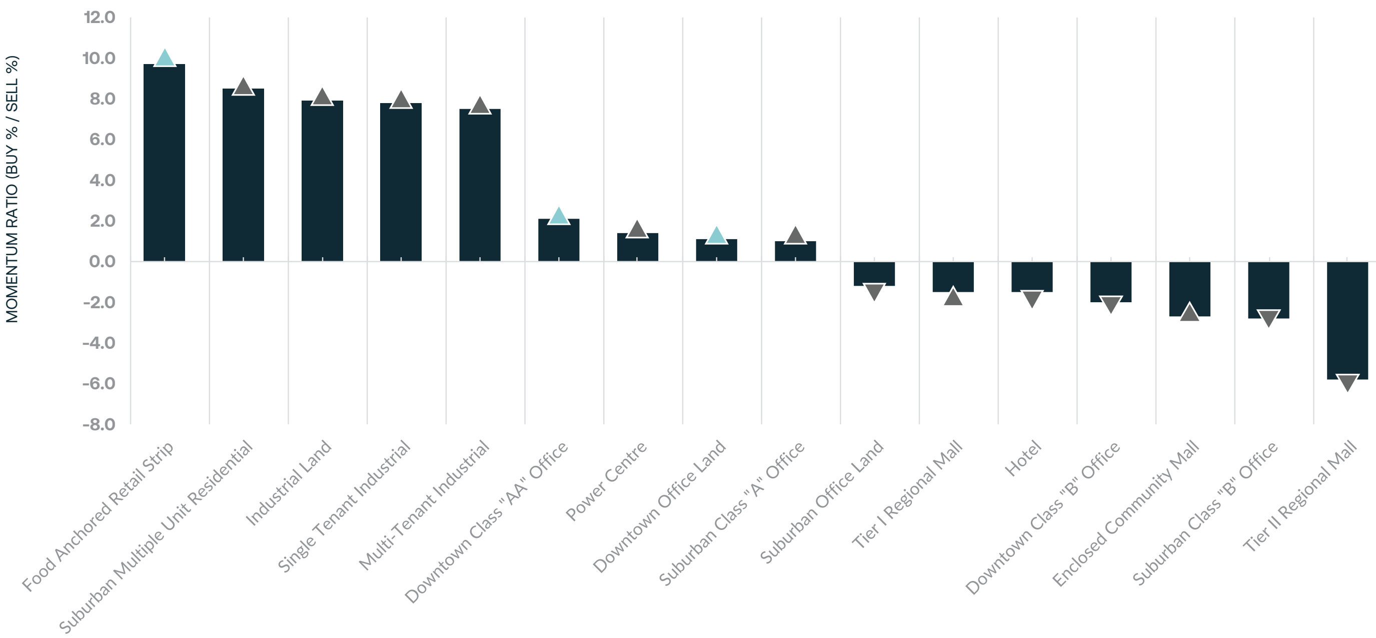
**Figure 1: Year-Over-Year Transaction Volume, 2020 vs. 2021**

**Total Investment Activity**




* Major markets covered by Altus Group

**Figure 2: Property Type Barometer – All Available Products, Q1 2022**




Source: Altus Group's Investment Trends Survey

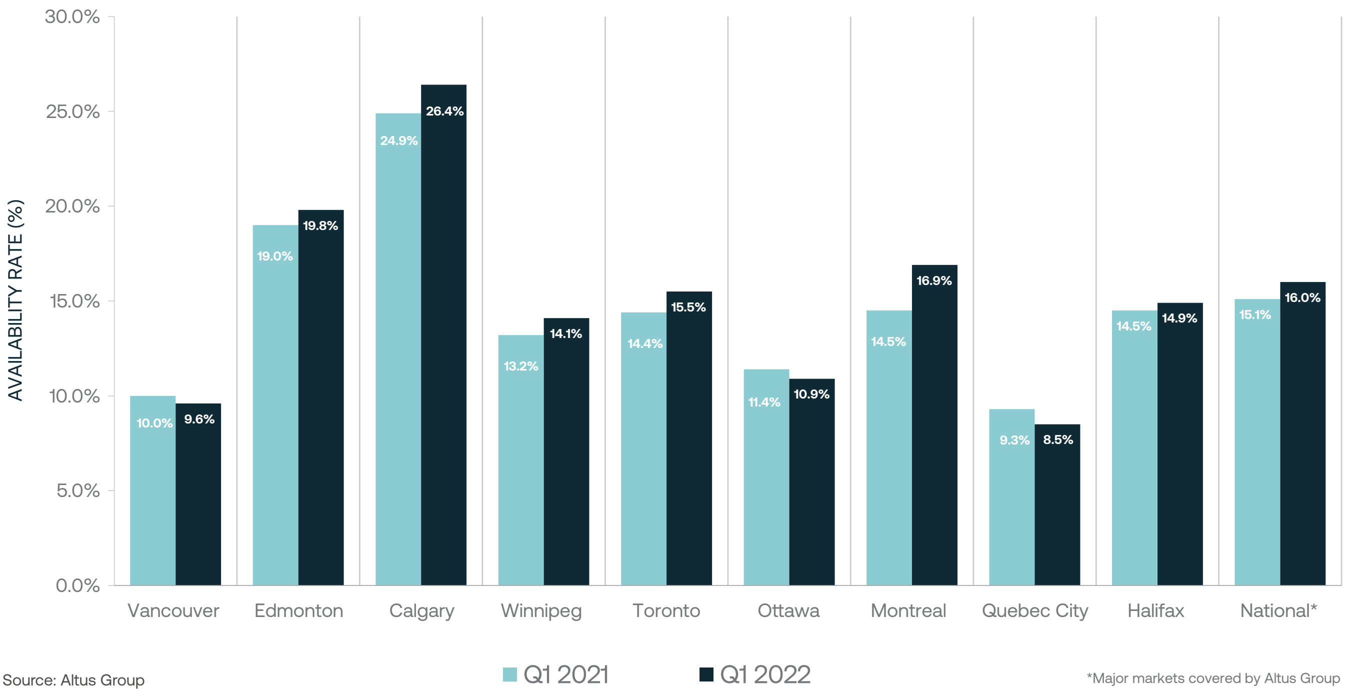
With restrictions lifting, the labor market was quick to bounce back, after a plunge in employment levels. According to Statistics Canada, employment levels climbed by approximately 73,000 in March 2022, plunging the unemployment rate to 5.3%, the lowest rate on record since 1976. Employment gains in March were led by the retail trade, construction, health care and social assistance, as well as information, culture, and recreation industries. This coincides with the loosening of restrictions, lifting of the proof of vaccination requirements, and capacity limits being lowered. Staff previously laid off due to closures of restaurants, retail, and recreation spaces were able to return to work, more than offsetting the losses seen in January 2022 when tighter restrictions were imposed. The labor market when looking at the construction sector will continue to remain especially tight. Meanwhile, supply chain shortages, and high commodity pricing exacerbated by the current geopolitical climate are expected to persist. When looking at Alberta, Ontario, and Quebec specifically, and comparing employment rates to the same time last year, employment rates have increased by 4.9% in Montreal, 0.9% in Edmonton, and 1.2% in Vancouver as of March 2022. This growth has been catalyzed by the easing of restrictions, and lowered capacity limits as employers are accelerating their return to office plans. Tight labor market conditions, and low unemployment rates can be expected to remain throughout the year but may face volatility as the impacts of the sixth wave of the Covid-19 virus become more apparent.

## Office tenants continue to reimagine space as needs evolve and availability rates remain sensitive

Office availability has been rising since early 2020, and this trend has continued into the first quarter of 2022, with the national availability rate sitting at 16%, the same as Q4 2021, but a jump from the 15.1% recorded in Q1 2021(Figure 3). The Vancouver market had the second lowest availability across all major markets, sitting at 9.6%, a drop from the 10% seen at the same time last year. Meanwhile, overall office availability has gone up in both the Montreal and Edmonton markets, with the Edmonton market having the second highest office availability and the Montreal market having the third highest. In Montreal it has gone up from 14.5% in Q1 2021 to 16.9% in Q1 2022, whereas in Edmonton the rate rose from 19% in Q1 2021 to 19.8% for the same period this year. Office sublet availability fell in both the Vancouver and Edmonton markets when comparing the first quarter of 2021 to the same period this year, however, a slight uptick was seen in Montreal.

With sublet rates dropping in Vancouver, and the overall office availability being one of the lowest in the country, the revitalization of the office market is quickly emerging, and can be expected to pick up as 2022 progresses. Meanwhile, in Edmonton, while the overall availability rate remains high, the sublet availability rate reporting a slight downturn is a positive indicator for the market. The Edmonton office market has been subject to quite a bit of volatility, with the oil price crash followed by the pandemic. Thus, while overall availability rates remain high, they have been mostly steady (within a percentage) over the last year implying that despite the many hurdles the market has experienced, it is staying resilient. This trend is expected to continue throughout the year. The Montreal market has experienced a slight rise in both the sublet and overall office availability rates. However, despite this, tenants are not dumping their real estate. Instead, they are accommodating to their employee needs by either renting bigger spaces, or promoting the hybrid model, and creating smaller offices in proximity to their employee residences. The focus on redesigning the office space to promote collaboration and rebranding of office spaces is expected to remain a priority throughout 2022.

**Figure 3: Office Availability Rates, Q1 2021 vs. Q1 2022**




Source: Altus Group

*Major markets covered by Altus Group

With the pandemic triggering a reimagination of the traditional office model that we knew, new trends that have emerged are likely here to stay. After weathering multiple lockdowns, employers have slowly begun to plan their return to the office. While the hybrid work model combining in person and going into the office is here to stay, the use of the office space has shifted. In general, instead of being used as a space for all things work related, the office is now a space that employees turn to in order to collaborate, and share ideas, with employees managing individual projects from home. Employers will focus on having higher average square footage per employee, as well as upgraded ventilation systems and amenities. This will serve not just to accommodate physical distancing and safety needs, but also work to boost productivity and curate the office space to align with the new hybrid office model.

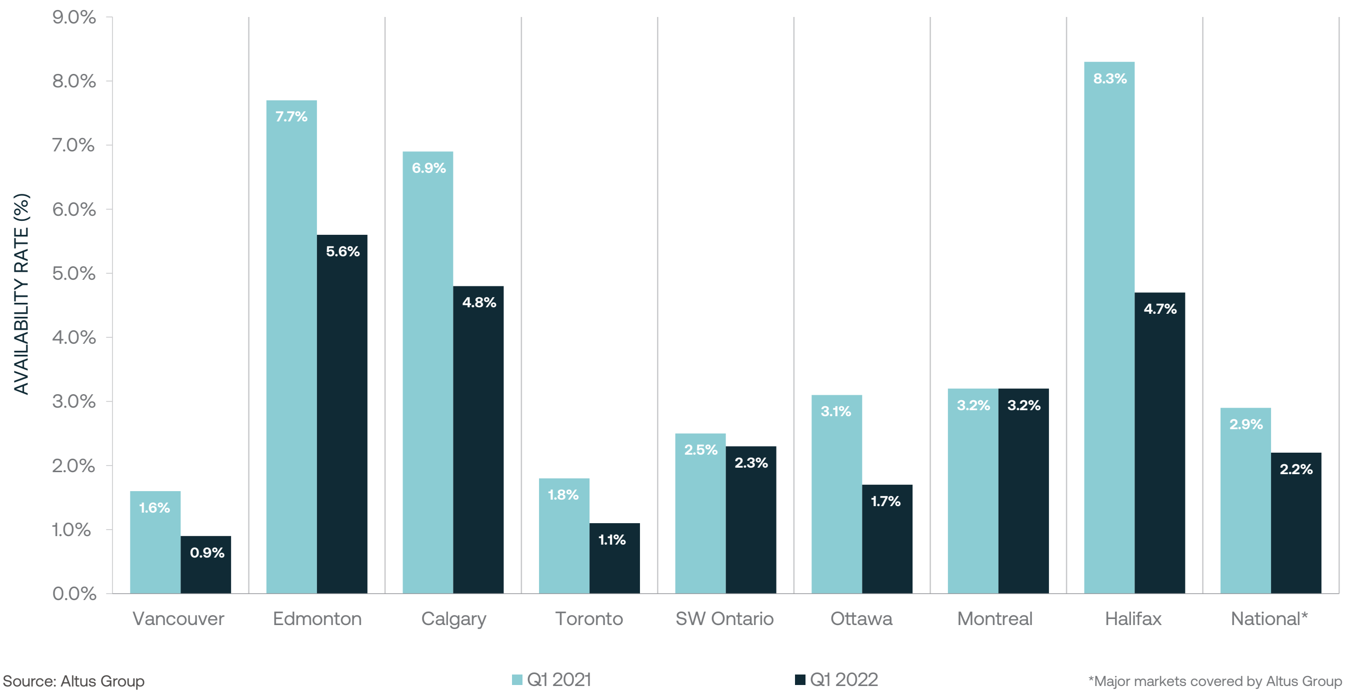
## Industrial assets remain an investor favorite, with availabilities continuing to tighten

The shift towards e-commerce, plus the ongoing supply chain bottlenecks have ensured that the demand in the industrial sector has remained strong. With the national availability rate tightening from 2.9% in the first quarter of 2021 to 2.2% in Q1 2022, some of the largest cities continue to have the tightest availabilities. Overall Capitalization Rates for the asset class have trended downwards for the past year, reporting a slight uptick in Q1 2022. Vancouver has the tightest availability across the nation, sitting at 0.9% as of Q1 2022, dropping from the 1.6% seen at the same time last year. The availability rate in Edmonton, the highest across the country, has also dropped, registering at 5.6%, as compared to 7.7% seen Q1 2021, while the Montreal availability rate has remained steady at 3.2% (Figure 4).

With industrial asset availabilities tightening, new supply on the market is also quickly being absorbed. This is especially noticeable in Vancouver, where the first quarter of 2022 saw 250,000 square feet of industrial completions, with 0% availability. Demand outpacing supply in Vancouver has also led to an upward pressure on rents, with industrial product trading at a premium. This can be attributed to the topography seen in Vancouver. With the ocean on one side and the mountains on the other, there is not much space to build industrial product which can accommodate the constantly growing demand. Pressing demand has led to innovation when it comes to industrial product in Vancouver. Trends such as stacking, and industrial usage mixed with asset types are becoming increasingly common in the city. However, the price to build such product is also higher, further contributing to the rising rents for industrial assets. The first quarter of 2022 has seen a continuation of this trend. With absorption remaining rapid, and supply being outpaced by demand, these trends are expected to remain throughout the year.

With Edmonton having the highest availability rate in the country, their industrial market added 70,000 square feet of industrial space with 100% availability rate as of Q1 2022. However, when looking at the just over 4 million square feet of under construction industrial space, an availability rate of almost 27% was noted. This implies that the industrial space in Edmonton is also being absorbed, though it may not be as rapid as Vancouver. This is because when looking at Edmonton's topography, it is far flatter than Vancouver's, implying that there is more space to build product to keep up with the demand. Combining its dropping availability rate, along with the absorption in the under-construction projects for Q1 2022, it can be deduced that while demand is tightening, supply is keeping pace keeping the market steady, and it is expected that it will remain this way throughout 2022, especially as investors spill over from white hot markets such as Vancouver into Edmonton, allowing demand to stay steady, if not slightly higher.

### Figure 4: Industrial Availability Rates, Q1 2021 vs. Q1 2022




Source: Altus Group

*Major markets covered by Altus Group

Montreal, also noting a drop in industrial availability, has added just over 1.3 million square feet of completed area to its industrial market, with a 9.5% availability rate in Q1 2022. A lot of this new square footage is in the area surrounding the Greater Montreal Area. With the suburban areas ripe for redevelopment, developers are looking at seven preapproved zones of interest to build new product. While new supply is coming into the market, it is being quickly absorbed, as reflected by the availability rates, and an upward pressure of rents is also seen. These trends are expected to remain the same throughout 2022, especially as inventory remains limited with demand continuing to outpace supply.

In general, as rents continue to trend upward (as reflected in Table 1), and availabilities continue to remain tight, the strong demand for all industrial assets (industrial land, single-tenant, and multi-tenant) is expected to persist. This is owing to their nature as an essential asset, especially at a time where e-commerce is booming, and global supply chain issues are ongoing. Assets with high redevelopment potential will trade at a premium. Moving forward in the industrial market, additional trends to watch include the rise of multi-story facilities, as well as preference for assets with technological capabilities maximizing the efficiency of the asset.

The following are some of the notable industrial transactions conducted between Q1 2021 and Q2 2022. These transactions reflect the rising prices of industrial assets, along with the preference projects located slightly away from the city center. The biggest transaction from each region (Vancouver, Edmonton, and Montreal) is highlighted below.

- Located in Burnaby, 5140 North Fraser Way was purchased by a private investor for $35 million from Coanda R&D in January 2022. The building includes approximately 24,000 square feet on one floor, and will serve as a two-storey, multi-tenanted industrial building, occupying a total of 75,251 square feet. It reflects a price per square foot of $465.
- J. Diamond Properties Limited purchased a multi-tenant warehouse and distribution space in Edmonton in February 2022. This 93,000 square feet property was purchased for $18.75 million from The Plains Group and reflects a price per square foot of $455. The property is zoned for medium industrial use, and includes two, one storey single tenant industrial buildings.
- Summit Industrial Income REIT purchased a three storey, multi-tenant warehouse and distribution industrial property from Canpro Investments in April 2021. The property asks for a price per square foot of $240, and measures 765,145 square feet. It is located in Point Claire and acts as head office distribution center to Aldo Group, as well as a home to SSENSE.

## Table 1: Featured Industrial Transactions – Vancouver, Edmonton, Montreal

Q1 2021 – Q1 2022

| Market | Submarket | Date | Address | Purchaser(s) | Price | Tenancy type | Building size |
|---|---|---|---|---|---|---|---|
| GVA | Surrey, BC | 03/28/2022 | 19315 96th Avenue<br>19325 96th Avenue<br>19335 96th Avenue | Beedie Group | $34,750,000 | Flex building (Multi Tenant) | Not Provided |
| GVA | Burnaby, BC | 01/27/2022 | 5140 North Fraser Way | 5140 North Fraser Way Holding Ltd.<br>(Private Investor) | $35,000,000 | Flex building (Multi Tenant) | 75,251 SF |
| GEA | Nisku, AB | 01/26/2022 | 606 19th Avenue | InvestPlus REIT | $14,000,000 | Warehouse & Distribution (Single Tenant) | 93,000 SF |
| GEA | Edmonton, AB | 02/04/2022 | 13625 159th Street NW<br>4804 50th Avenue | J. Diamond Properties Ltd. | $18,750,000 | Warehouse & Distribution (Multi Tenant) | 41,200 SF |
| GMA | Pointe Claire, QC | 02/09/2021 | 2400 Transcanada Highway<br>2620 Transcanada Highway | Nobel REIT | $98,182,69 (50% Ownership Transferred) | Warehouse & Distribution (Single Tenant) | 309,000 SF |
| GMA | Saint-Laurent, QC | 04/09/2021 | 2300 Émile-Bélanger Street<br>3665 Poirier Boulevard | Summit Industrial Income REIT | $183,350,000 | Warehouse & Distribution (Multi Tenant) | 765,145 SF |

Although 2021 was riddled with setbacks for the commercial real estate industry, the industry depicted resiliency with activity in early 2022 reflecting signs of optimism and excitement going forward. The office market continues to remain sensitive as employers reimagine the office model and focus on accommodating their employees' shifting needs. Conversations around office space reduction may still continue, however, as opposed to dumping their office space, employers will seek to use it to promote collaboration, productivity, and talent retention. Industrial demand is expected to remain high owing to the ongoing supply chain issues, shift towards e-commerce, and the redevelopment potential the asset class offers. Having spent a year adapting to many setbacks, the commercial real estate industry has emerged as a strong space ready for continued growth and value creation in 2022.

# VANCOUVER
## REAL ESTATE FORUM

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# TOP 10 | REAL INSIGHTS | Vancouver Real Estate Forum 2022 | ISSUE 70

## INSIGHTS FROM INDUSTRY LEADERS DURING THE CONTENT FORMATION OF THE VANCOUVER REAL ESTATE FORUM

### 1 VANCOUVER ECONOMY RECOVERS FROM THE PANDEMIC

Employment and the provincial GDP has been steadily increasing, business opening and closing volatility has decreased, and economic growth continues.

### 2 VANCOUVER ISLAND AND B.C. INTERIOR BECOME MORE ATTRACTIVE TO DEVELOPERS

Pandemic-inspired resettlement to smaller BC markets has led to aggressive investor expansion and a development boom where land is more affordable.

### 3 LAST MILE DELIVERY CONTINUES TO BE A CHALLENGE FOR INDUSTRIAL USERS

Low vacancy rates and high demand are causing users to go farther afield to find industrial real estate.

### 4 UNDERSTANDING ESG INVESTING BECOMES INCREASINGLY IMPORTANT

As noted in the Altus Sustainability report, disruptions due to climate change and the pandemic, combined with a growing awareness of social inequity, has led to increased ESG importance to the way organizations do business.

### 5 HOUSING AFFORDABILITY CONTINUES TO BE TOP OF MIND

In the Greater Vancouver marketplace the average price of a detached home increased 25% in the last year alone, leading to “toxic demand” in the housing market.

### 6 LABOUR SHORTAGES, CONSTRUCTION COSTS, AND MUNICIPAL APPROVAL PROCESS PROVE CHALLENGING

An aging workforce, and technological change are contributing to a talent shortage, while the cost of construction and municipal barriers stall new development.

### 7 POLITICS AND GOVERNMENT POLICIES IMPACT THE MULTI-RESIDENTIAL MARKET

Several policy changes made by the City of Vancouver have cut down on application times, but studies look for change in zoning laws to keep up with demand.

### 8 INDUSTRIAL MARKETS REMAIN UNDER INTENSE PRESSURE BETWEEN LOW VACANCY AND GROWING DEMAND

Metro Vancouver’s industrial vacancy rate is the lowest in North America as demand increases.

### 9 HOW WILL INFLATION AND RISING INTEREST RATES IMPACT FINANCING?

The cost of housing, food and more continues to rise in Canada: look for an increase in the cost of borrowing.

### 10 PROPTECH INNOVATIONS IMPACT NEW DEVELOPMENT AND THE BUILT ENVIRONMENT

Investments in PropTech have increased exponentially, and will continue to change transactions and service capabilities.

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

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# VANCOUVER: AN INTERNATIONAL CITY

Anthony Lanni
*Executive Vice President*
*Residential*
*QuadReal Property Group*

Roz McQueen
*Director, Leasing*
*Nicola Wealth Real Estate*

Vancouver is a broad, diverse and truly global city, with all of the opportunities and responsibilities that go along with being a market of that stature. Our city attracts international attention given its proximity to major international markets and has traditionally fostered a climate where investment was achievable.

During what could be the tail-end of a global pandemic, we are exceptionally privileged to have come out stronger in terms of global positioning, and with landlords in some areas writing pioneering deals and seeing unheard-of, incredibly low vacancy rates.

Most notably in the industrial asset class, Vancouver remains very much a landlord's market. The challenge will be in meeting demand for space, with tenants onshoring more of their operations and, therefore, needing to warehouse more material. This could last another 24 months while global supply chain issues work themselves out.

After two years of COVID, some offices have thrived with work from home and will continue to do so, but we suspect that may be at most 10 to 15% of the market. As for the rest, landlords need to wear the hats of C-suite individuals and determine how to inspire people to return to work. Second-rate office space is no incentive. Most of the deals happening now are in new developments or in amenity-rich or well-located buildings. Landlords must get creative and be a support and a sounding board for new and existing tenants, to attract them into their vacancies.

Amid ongoing land shortages, population is on the rise. How do we house all of the people coming to Vancouver through immigration, and through both short-term and long-term migration from within Canada and abroad? Growth has spurred development, which is great news for our industry but also creates challenges around supply, as well as sustainability of employment.

The threat of climate impacts in our region is very real, notably in areas at, near or below sea level. Flooding from rising sea levels, atmospheric change, water shortages, and rising temperatures are acute issues in Greater Vancouver. Investors must consider the costs of abating these significant risks.

While landlords all over Canada feel the pressure to adhere to environmental, social, and governance (ESG), these responsibilities ought to come naturally to Vancouverites who live up to their reputation of being in tune with nature. The ESG mindset isn't new to us, but if widespread adoption forces more industry players to up their game, we see no harm in that.

Our earnest wish is for this forum to create a venue for people to get together, solve challenges and generate inspiring deals. We aim to push the boundaries of what Vancouver is—a global city, tech centre and world-class place to live. The geographical amenities that surround us are absolute luxuries. Know that the deals you do in Vancouver, the assets that you manage, and the relationships and partnerships you forge here are exceptional.

■ *Michelle Morra*

# SPEED OF RATE RISES WILL SHAPE ECONOMY

Benjamin Tal
*Managing Director*
*Deputy Chief Economist*
*CIBC*

Though there's no doubt that tighter money will tame inflation during the coming year, the tough part is for Bank of Canada to tread that tightrope carefully, so as not to trigger a recession.

"The Bank of Canada will do whatever it takes to rein in inflation. It won't throw away its reputation as an inflation fighter," affirmed CIBC Managing Director and Deputy Chief Economist Benjamin Tal. "I see it raising interest rates to about 2-2.5%. The issue is what kind of cost it will take to bring inflation back to 2%."

While that raises the risk of a recession, Canada can skirt a decline next year, if authorities act prudently and industry invests wisely.

"It depends upon how quickly the Bank of Canada moves," Tal explained. "The enemy of the real estate market is not high interest rates; it is rapidly rising interest rates. If the Bank of Canada overshoots and increases interest rates to 2.5% during 2022, that can derail the market and lead to a recession in 2023, because it is too rapid. If you get there in two years, though, the market can take it."

Besides bumping up interest rates, Bank of Canada has already started to tighten its mortgage-backed securities portfolio. That tightening will be equivalent to an additional 30-40 basis point increase.

"It might limit the need to go above 2% because you get some tightening from this vehicle," he said.

Mortgage renewals will not change in the near-term, since rates will simply return to levels similar to five years ago.

*"Rents will remain elevated during the next few years. That is semi-permanent. Wage increases will be another factor, placing downward pressure on profits. The only way out is to improve productivity through investment."*

Vancouver and all of British Columbia can expect 3-3.5% growth in 2022 from its technology sector and a strong commodities market in the wake of Russia's and—to some extent—Ukraine and Belarus' exit from world markets.

"The situation in Russia is more inflationary for North America than recessionary," Tal said. "Inflation is driven by COVID and demand that would be difficult to deal with in normal times. A year from now, the supply chain should pose less of a problem."

Upheavals in Europe have transformed the world economy dramatically and will reverse efforts to reduce Canada's reliance on the United States, though. Whether the tsunami of capital that has washed over British Columbia will continue, also remains a wild card.

"We are entering a new Cold War," Tal observed. "Cold Wars is usually positive for commodities, to British Columbia's benefit. If I were Justin Trudeau, I would be sending my people to Washington to ensure that when Joe Biden says, 'Buy America', he means 'Buy North America'. We have to be onboard, because our reliance on the United States will grow."

Although consumers will continue to drive strong demand during 2022, profit will prove elusive, as labour scarcity and deglobalization turn just-in-time inventories back into just-in-case.

"Rents will remain elevated during the next few years. That is semi-permanent. Wage increases will be another factor, placing downward pressure on profits," Tal concluded. "The only way out is to improve productivity through investment."

■ *Robert Frank*

# IMMIGRATION AND AUTONOMOUS VEHICLES WILL CONTRIBUTE TO FUTURE HOUSING DEMAND

Avtar Bains
*Founder & President*
*Premise Properties*

*"Low vacancy rates and a strong influx of newcomers will sustain significant demand for multi-family residential properties here."*

The world can't get enough of Vancouver.

"There is no question that real estate has earned its way out of the alternative class and become a primary, material and consistent part of your portfolio," declared Premise Properties Founder and President Avtar Bains.

"There is so much demand from the institutional world, from the public markets world, local private equity, syndicated funds, closed and open-ended funds and the offshore community in Greater Vancouver and elsewhere in British Columbia—that demand won't subside any time soon," he predicted.

"Multiple bids are commonplace, especially for well-located properties of quality," he noted. "With low supply and $10-$20 in demand chasing every dollar of supply, there remains room for the Vancouver marketplace to increase."

**Industrial to surpass record prices**

Bains expects industrial prices to stay strong, provincewide.

"User demand for industrial space has created insatiable demand for land for future and current development as well as existing assets," Bains said. "You will definitely see more valuation records broken."

**Population magnet**

Low vacancy rates and a strong influx of newcomers will sustain significant demand for multi-family residential properties here, he added.

"There could be tremendous security and upside in rents," he suggested. "Well before the unfortunate events in Europe, we already anticipated tremendous immigration throughout British Columbia."

While Bains acknowledged that government strictures could limit rent increases, he underscored that "there is still much more demand than supply on the multi-family side."

**Office enters big-league**

Downtown Vancouver is at last attracting big players. Typical 10,000 square-foot office tenants are now supplemented by demand for huge footprints from corporate behemoths.

"Office downtown is on fire," Bains observed. "Amazon took well over one million square feet and another tenant is currently negotiating for a similar amount of space. In 40 years, I've never seen a market like this. Well-located new ESG-compliant properties with great floor plans, large footprints and floorplates near restaurants, entertainment and transportation will overachieve—with collateral benefit for suburban office space."

**Retail uneven**

Some retail sub-sectors have handily exceeded expectations during the pandemic.

"Grocery- and pharmacy-anchored strip malls performed well everywhere in British Columbia," he said, "as have some street front retailers. The Achilles heel is larger, enclosed assets. Some, like Pacific Centre, still produce wonderful numbers. But national retailers no longer want to be in every marketplace. So, retail prospects differ from case-to-case."

Though inflation and labour shortages remain a challenge, Bains does not expect the same degree of downward pressure on capitalization rates.

"Moving a four cap to 3.5 is a 50 basis-point spread. I don't see it going from three down to 2.5," he concluded. "The intensity will be less, the lower that you go."

■ *Robert Frank*


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# VANCOUVER REAL ESTATE MARKET CONTINUES SOARING TO NEW HEIGHTS: PARTNERSHIPS AND GETTING CREATIVE ARE KEY TO GETTING GOOD DEALS

Michael Hungerford
*Partner*
*Hungerford Properties*

More than a century after Michael Hungerford's family entered the field of real estate, people still continue to ponder an age-old question: has the Vancouver market finally reached its limit?

"To outsiders it seems to be an expensive market that's hard to enter," says Hungerford, a partner at Hungerford Properties with more than two decades of experience overseeing the management and development of over $2B in real estate.

"But time and time again history has proven, in a land-constrained market with strong fundamentals, demand just continues to push the market into new heights.

"You have to take a view on rent growth that might seem uncomfortable in other markets, but medium and longer-term horizon investors have certainly done very well here."

> *"In my 20-year career, I've never seen such strong rent growth in the industrial market."*

Despite the possibility of short-term fluctuations, Hungerford says he remains quite bullish on the market, particularly in residential and industrial asset classes on which the company has continued to focus.

While adding to those market positions, they've also increased their involvement in operating businesses that can defend those positions and support underlying real estate, such as a self-storage platform.

It's only one facet of a multi-pronged competitive strategy that includes focusing heavily on partnerships, and thinking creatively to get the best deals, Hungerford says.

"As deal sizes go up dramatically and landowners express their interest in participating in projects, partnerships are becoming increasingly important. So we've worked with a number of property owners to put deals together, as well as with institutional groups that want to see local boots on the ground and development expertise," says Hungerford.

"The biggest thing that's on my mind these days is the lack of available supply. In my 20-year career, I've never seen such strong rent growth in the industrial market."

With a continuing influx of immigration into Canada, the demand is unlikely to subside, he says.

"At a high level, I would say Vancouver has really distinguished itself over the last few years as a core market for Canada. The performance of the market through the challenges of a global pandemic is even more demonstrative of this.

"It's a market that people want to be in, but more importantly need to be in, if they want to reap the benefits of a diversified Canadian strategy."

■ *Barbara Balfour*

# MULTI-FAMILY ASSET CLASS CROWNS MOST VANCOUVER INVESTORS' LISTS

Cynthia Jagger
*Principal*
*Goodman Commercial Inc.*

Thanks to record-breaking sales and an unprecedented number of first-time buyers, the multi-family asset class in metropolitan Vancouver is the hottest it's been in decades.

"Throughout 2020, while retail and office assets were struggling, apartment buildings demonstrated an extremely steady level of performance. This resulted in much higher levels of investment activity," says Cynthia Jagger, Principal of Goodman Commercial Inc.

"We've just published our year-end 2021 Goodman report and it's been the most active period we've seen in 20 years. We tracked $2.6 billion in apartment building sales in 2021, which is higher than the average for the past 15 years. We saw 161 trades, which is also significant."

# WHERE THERE'S A WILL, THERE'S A WORKPLACE

Jocelyn Legal
*Executive Managing Director & Managing Principal*
*Cushman & Wakefield*

The pandemic has hastened the flight to quality, city centre buildings, as tenants want safer, more convivial workplaces that their employees now expect.

"To get people back into the office, they have to want to be there," declared Jocelyn Legal, Executive Managing Director and Managing Principal, Cushman & Wakefield. "New buildings will need lots of windows that open."

Whether that also means upgrades for B and C class buildings remains to be seen, though.

"We're seeing more existing office inventory trade lately, which we haven't witnessed for many years," she reported, "so there is an appetite."

**City versus suburbs**

Until now, deciding whether to set up downtown hinged on supply and cost. Today, soaring home prices and the pandemic have pushed so many people out to suburbia that the time which it takes to travel to work often proves decisive.

"It's not the distance—it's the commute time," Legal observed. "It's not that people don't want to work in the office. It's that they don't want to spend hours each day commuting. That will be the biggest determinant as to how people come back to work and influence where companies locate as well as whether they operate suburban satellite offices."

*"People don't want to spend hours each day commuting. That will be the biggest determinant as to how people come back to work and influence where companies locate as well as whether they operate suburban satellite offices."*

Vancouver has fewer process-oriented, transaction-heavy banks and insurance companies than Toronto, where those institutions have slowed the return downtown, as they weigh whether instead to downsize. Vancouver instead leans more on technology firms, which already had pre-pandemic hybrid workplace practices for their young, downtown-dwelling employees.

**Hospitality model attractive**

"The big office space glut didn't happen," she recalled. "Demand remains robust. People held onto their space even though it was empty. Rents stayed firm, with a small softening on inducements. The bigger question is how people use their space, rather than how much space they use."

"If you want people to return to the office, you must ask: 'When you can work anywhere, why work here?'" Legal suggested.

Developers are pulling pages from hospitality and residential design to make their premises more attractive to people.

"They recognize that the office to supply some home comforts," she said. "Dogs at work proved popular during the pandemic. Do landlords need to admit dogs? Maybe not. Some buildings might have a house dog that you can take for a walk—the kinds of amenities and concierge ideas that will make them more livable."

■ *Robert Frank*

The highest recorded amount in sales neared $3 billion in 2018, but this remains well above typical years that see figures closer to $1.5 to $2 billion, says Jagger, who predicts the multi-family asset class will continue to crown the top of investors' lists.

In addition to more properties changing hands than usual, Jagger also expects to see increased new developments, although she adds they will be challenged by significant recent increases in expenses. One such expense is insurance, which in some cases has gone up by 200%.

"After the wildfires of summers past, insurance companies are more concerned about mitigating significant losses and more aware of the risks associated with aging buildings, especially if they haven't upgraded their wiring, roof and windows," she says.

"We first saw this in the condo market and now it's really hit the existing rental building market in the last few years."

While these increases can have a significant impact on net operating income and consequently on feasibility, Jagger doesn't anticipate a further compression of cap rates.

"Perhaps there will be some federal and provincial programs to help move some of those projects from borderline to feasible. I'm hopeful that we will have more new rental coming- there are a lot of large-scale, master plan communities with significant rental components that will come to fruition over the next five to 10 years," she says.

*"This year is a municipal election year, so we could have potentially all new city councils coming this fall."*

"This year is a municipal election year, so we could have potentially all new city councils coming this fall. It will be interesting to see whether there are any changes to what municipalities are doing. We have so many municipalities, and so many different rules."

■ *Barbara Balfour*

# BUILDERS SEEK INNOVATIVE, SUSTAINABLE SOLUTIONS


*Image Credit: Nexii Building Solutions Inc.*

Bill Tucker
*Executive Vice President, Nexii & CEO, Omicron*

*“Premanufacturing doesn’t eliminate labour. You simply get more precision and efficiency in a factory than when you’re hanging outside a 20-storey building in the rain.”*

With no respite in sight from rapidly rising materials costs, labour shortages and supply chain disruptions, the construction industry needs to find new ways to cope with unrelenting demand pressure.

“The question isn’t ‘Will construction costs rise?” observed Bill Tucker. “The question is how high?”

Vancouver’s sunshine, scenery and safety will continue to attract an unabated influx of domestic and foreign newcomers indefinitely, driving inflation upward in the residential space, while the market shrugs off previous pandemic challenges.

“Demand is not going away,” insisted Omicron’s Chief Executive Officer. “Vancouver already has development mega-masterplans underway, on top of tech and large commercial tenants spooling up.”

Add in emerging, carbon-averse environmental energy codes and standards, and new solutions are now needed to ensure that developers adhere to increased government strictures without incurring prohibitive costs.

“It is becoming critical to affordability,” he said. “To create more economic building systems, we have to change materials, labour practices—or both.”

That’s why Omicron decided to join forces as a wholly owned subsidiary of Nexii Building Solutions, for whom Tucker now double-hats as Executive Vice President, Operations, Architecture, Engineering & Assembly.

“Our mission is to reduce our environmental footprint through high-performance building in a more cost-effective, productive way,” he said.

The firm has prioritized factory assembly work, to contain operations and maintenance costs and reduce carbon output, and it is studying ways to build even more components offsite.

“Premanufacturing doesn’t eliminate labour,” Tucker explained. “You simply get more precision and efficiency in a factory than when you’re hanging outside a 20-storey building in the rain.”

**Reciprocate relationships and secure resources**

Indeed, firms that have embraced in sound relationships with their workforce will be best-positioned to prosper, as the industry increasingly faces scarce resources and labour.

“If you have engaged in good partnerships with your tradespeople, they will support you,” he suggested. “If you have been abusive, you might have a little bit more trouble.”

With so many projects ongoing and inflation rampant, builders need to pin down scarce resources swiftly.

“It’s about sourcing the capacity,” Tucker said. “If you’re bidding on something, tradespeople exposed to commodity prices and short timeframes might not be able to hold a price for 45 days. You have to hit it right in terms of tendering and move quickly, once you get the deal you want.”

■ *Robert Frank*

# UNPRECEDENTED ALIGNMENT OFFERS OPPORTUNITY TO RELIEVE HOUSING CRUNCH

Jennifer Podmore Russell
*Vice President, Advisory*
*rennie*

British Columbia's economy is booming. With more than one in every fifteen jobs is vacant and retiring baby boomers poised to push that figure higher, the population needs to increase to sustain that growth. The question is, where will all those newcomers live?

"More Canadians moved to British Columbia during the last two years than we've seen in more than a decade," observed Jennifer Podmore Russell, Vice President, Advisory, rennie. "They are coming because we have jobs—but they all have to be housed."

The province already faces a challenge handling housing demand from organic growth of its own population, as millennials mature and move into homes of their own.

While well-intentioned government measures designed to decrease demand have cooled the market slightly, more needs to be done to build the 5,000-10,000 dwellings British Columbia will need each year.

"We need to unlock and create more supply more consistently," she said. "We have to address the skilled trade deficit and enable the supply chain to get materials to site when we need them."

Podmore Russell praised provincial and municipal government efforts to expedite approval processes and support skills training. Vancouver and Surrey have streamlined approval timelines by blanket exempting the city core commercial mixed-use redevelopment that it wants from rezoning delays.

"People who want to build six-storey residential within selected zones get fast-tracked, which means we can be into the ground sooner after acquiring land," she underscored.

The industry has responded by rethinking materials and building systems to maximize construction efficiency.

"The private sector is asking 'How do we expand capacity?' Podmore Russell observed. "The public sector is thinking how can we expedite?"

She also commended the government's strategic decision to support skills training and attract skilled workers here.

"Its investment in polytechnic—like at British Columbia Institute of Technology—and its emphasis on attracting skilled newcomers from Canada and abroad will make the most meaningful impact toward stabilizing prices," Podmore Russell predicted.

**Attainability alternatives**

Rethinking residential ownership norms to include some form of incremental ownership also looks promising.

Firms such as Key, Addy and REITIUM have each developed different alternatives to the rent-versus-own dichotomy.

"It's the missing middle that we're seeing," she explained. "People with a great income and phenomenal creditworthiness but unable to accumulate a deposit. As a tenant owner, I can put 2.5-5 percent down and become a co-owner instead of a renter."

■ *Robert Frank*

# VANCOUVER EDGES TOWARD “TRUE GLOBAL CITY STATUS”

Chuck We
*Senior Vice President*
*Western Canada*
*Hudson Pacific Properties*


Though economics plays an important part in sustaining upward pressure on Vancouver real estate prices, the city also increasingly attracts capital interested in investing in major world centres.

“Twenty-five years ago, you would compare Vancouver pricing relative to Edmonton and Calgary,” recalled Hudson Pacific Properties’ Senior Vice President, Western Canada, Chuck We.

Now, he says, prices are compared to Toronto and Montréal. Tomorrow, the world?

“You already see tenants arriving from San Francisco and Seattle who once would not have looked at Vancouver,” We observed. “The office side has grown from 1,500 sq.ft. to 10,000 sq.ft., and we’re witnessing tenants starting at 25,000 sq.ft. Given that Amazon has already taken a million square feet, we might be on our way toward true global city status.”

“The reasons why people locate here remain relevant and strong: Our natural environment appeals to every Canadian; we’re a gateway city to Asia; our access to international talent,” he asserted.

“American technology companies want to be here. We’re emerging as a major West Coast market tied into the Cascadia region,” We added. “That’s why companies are flooding in from Los Angeles, San Francisco and Seattle to capitalize on Vancouver’s growth.”

With industrial property prices on fire, and multi-family residential property values soaring, it’s possible that a contrarian approach could prove profitable.

“We’ve never seen this kind of record land pricing in industrial,” We said. “People are also starting to talk about stronger rent controls in multi-family, so maybe now is not the best time to be in those two great asset classes.”

A rebound remains possible in retail and office, as those properties reorganize and refurbish to reflect 21st-century realities.

“Retail is actively working to reposition itself, as is office,” he noted, “Some office properties are as strong as before the pandemic.”

“There are some headwinds to look out for,” We acknowledged. “Cities need to respond more rapidly and engage more efficiently and effectively with developers who are working to reposition their assets.”

The steady stream of newcomers to Vancouver’s real estate market will likely ensure valuations remain on the rise for the foreseeable future, though.

“They buy an asset, everyone shakes their head, thinking that they don’t understand and are overpaying. Six months later, everyone says” ‘I guess they’re proving it out,’” he concluded. “You can draw a line that angles upward, in terms of price. They overpay, then, in time, it proves a pretty good deal. That keeps repeating itself.”

■ *Robert Frank*

# ONLINE SALES PLATEAU, AS STORES REGAIN REVENUE

Scott Lee
*Executive Vice President*
*Real Estate*
*JLL*

Bricks and mortar retail will remain a robust real estate asset, as it continues to evolve and transform, reassured Scott Lee.

"People are slowly returning to stores," reported JLL's Executive Vice President of Real Estate. "We're seeing a lot more deal flow among retail tenants and landlords whom we represent in downtown Vancouver."

Online retail revenue jumped from 8% of gross sales to 18% during the pandemic, before settling back to 16%.

"The pandemic forced retailers to leap forward into online," he acknowledged. "That was as much growth in two years as during the previous fifteen."

Traditional retail's revival prospects vary significantly from one retail asset class to another.

"High metro Vancouver land prices have made most pure retail development uneconomic," Lee declared. "You won't see another major traditional slab-on-grade open-air shopping centre in the middle of a field with a parking lot again in downtown Vancouver."

Owners of enclosed malls like the Richmond Centre, Oakridge and Amazing Brentwood, which face the greatest transition, are also examining redevelopment opportunities.

"They have to evolve to include other services and uses, not just purely fashion retail," Lee explained. "I see a lot of that in Vancouver. Expect to see more grocery stores, entertainment and other uses. Several of them are probably too big for today's market."

Higher-density residential is also on the horizon, to maximize returns.

"It might be condominiums or rental or even seniors housing on a portion of these sites—as well as office, as employers explore attractive alternate locations."

Open-air centres—any outdoor asset from grocery stores to power centres—continue to thrive.

"Suburban open-air centres didn't miss a beat during the pandemic. They were the only places where we shopped comfortably. They will continue to thrive," he forecasts.

Lee is also upbeat about prospects for urban and suburban street front properties.

"Gradually, more people will return to the downtown core," he predicted.

While prohibitive land prices have inspired Vancouver grocery outlets to halve their footprints from 40,000 square feet to 20,000 square feet, some, like Loblaws City Markets on Lonsdale, have looked upward.

"It works well when the entire store is on the second level," he said. "Split-level stores, with 50% at ground level, don't usually fare as well."

Food services have also rebounded. Despite the demise of many downtown restaurants during the pandemic, those that survived are thriving.

"Have you tried to get a dinner reservation lately?" Lee concluded. "It's not easy."

■ *Robert Frank*

# EDMONTON
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# TOP 10 | REAL INSIGHTS | Edmonton Real Estate Forum 2022 | ISSUE 77

## INSIGHTS FROM INDUSTRY LEADERS DURING THE CONTENT FORMATION OF THE EDMONTON REAL ESTATE FORUM

### 1

**HOW HAS THE ECONOMY IN ALBERTA OVERALL AND EDMONTON SPECIFICALLY PERFORMED THROUGH THE PANDEMIC?**

How Much Growth Has There Been? Which Engines of the Economy Are Leading the Way?

### 2

**HOW DOES THE MAJOR ENERGY RESOURCE INDUSTRY ADOPT GREEN INITIATIVES AND ESG?**

Oil and gas producers are not consistently reporting on many key elements of ESG. There remains confusion on how to best approach it.

### 3

**LABOUR SHORTAGES, CONSTRUCTION COSTS AND MUNICIPAL APPROVAL PROCESS PROVE CHALLENGING FOR DEVELOPMENT**

Labour shortages in construction and engineering are anticipated for the next 10 years, which is a key factor in increasing costs, along with lumber prices and supply chain interruptions.

### 4

**THE EVOLUTION OF THE OFFICE MARKET: THE IMPACT OF RETURN TO THE OFFICE VS. REMOTE WORKING VS. A HYBRID MODEL**

Delays in returning to offices due to Omicron drove up vacancy in Q1, but as major players begin to adopt hybrid models, downtown will come back to life.

### 5

**ARE COMMUNITIES SURROUNDING EDMONTON ATTRACTING AN INCREASING PORTION OF DEVELOPMENT?**

Residential development projects are proceeding at a steady pace through out the Edmonton CMA.

### 6

**INDUSTRIAL REMAINS UNDER INTENSE PRESSURE BETWEEN LOW VACANCY AND GROWING DEMAND: LAST MILE DELIVERY CONTINUES TO BE A CHALLENGE**

Vacancy rates are declining across all areas of the Edmonton CMA as e-commerce drives up demand.

### 7

**HOW WILL INFLATION AND RISING INTEREST RATES IMPACT THE EDMONTON REAL ESTATE MARKET?**

Now that Alberta has managed to reverse its out-migration, Edmonton's lower rents should mean lower turnover, more affordable housing, and stability.

### 8

**EDMONTON CONTINUES TO GROW AS A TECHNOLOGY HUB: WHAT ARE THE KEY FACTORS?**

Talent from U of A, affordable real estate and tech infrastructure are supporting the expansion of the industry in Edmonton.

### 9

**RETAIL IS NOT DEAD – BRICKS AND MORTAR DID NOT COLLAPSE THROUGH COVID**

Retail therapy and pent-up demand from lockdowns attract shoppers to stores.

### 10

**THE INVESTORS' VIEW OF EDMONTON: HOW MUCH ACTIVITY HAS THERE BEEN SINCE 2020? WHO HAVE BEEN THE BUYERS AND OF WHAT ASSET CLASSES?**

Buyers can get higher returns in Edmonton than in many other markets, making investors bullish.

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


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# EDMONTON: DIVERSIFY & CONQUER

Melanie Ducholke
*Chief Financial Officer*
*Camgill Development Corporation*

Edmonton is enjoying reasonable growth. As Alberta eases into a period of stability driven by high oil prices, other contributors to economic growth include Edmonton's young, educated workforce, a group of innovators and spenders who attract business to the community. Factor in our high wages and low cost of living relative to other Canadian provinces in Canada, and it's not surprising that Edmonton grows deep roots. When people land here, they tend to stay.

The city's housing marking is booming, with no signs of slowing down. While developers sometimes overbuild in multi-residential, supply doesn't tend to be an issue with single-family housing.

Business resumption activity is picking up, while the suburban office market continues to struggle with high vacancy. Even with hybrid work models gaining momentum, the suburban office will take a while to catch up. Meanwhile, developers are busy conceiving of innovative ways to use and refurbish office towers to suit evolving demands in both downtown and suburban areas.

A word about retail – let's not be so quick to assume that bricks and mortar are going by the wayside. People still want a shopping experience that allows them to look, touch, feel. Even as some stores move into smaller floorplates, the physical presence of shoppers remains essential to the retail asset class. Grocery-anchored retail is experiencing an interesting resurgence as we build communities where people can go down the street and get a haircut, buy groceries and do their banking.

As we speak, institutional capital is chasing industrial, easily the most attractive asset class today. This will likely be a trend for the foreseeable future given rising fuel prices and transportation costs. I recall a time when industrial rents in Toronto and Vancouver were incredibly low. Now those markets are seeing upward pressure, making industrial properties in the Edmonton area all the more appealing to tenants.

Edmonton has a fairly strong tech sector, thanks in large part to our world-class educational institutions. In the name of growing more resilient and less reliant on strictly oil and gas, we must all continue to push toward diversification for a strong, sustainable economy.

Post pandemic, and amid significant geopolitical turmoil, this Real Estate Forum offers a breath of spring and highlights myriad reasons for pride and optimism in our industry. As you join industry peers and immerse yourself in our packed program, please regard today's high oil prices as a true gift on the back of some very unfortunate circumstances, and an opportunity not to be wasted.

■ *Michelle Morra*

# WORLD WAKING UP TO THE EDMONTON ADVANTAGE

Elan MacDonald
*Vice President*
*External Relations*
*University of Alberta*

Edmonton's economy is poised to outpace growth elsewhere, as it diversifies and levers its natural competitive advantages.

"There are five big transformations ahead of us," outlined Elan MacDonald, Vice President, External Relations, University of Alberta.

**Global green-energy capital**
The first is the advent of the hydrogen revolution. With 99% of global hydrogen production reliant on the natural gas, Edmonton could lead the emerging green economy.

"We can produce net-zero and very low-carbon hydrogen on a global scale for a low price," she underscored. "It is the potential next-generation wealth creator for Alberta."

With $15B in hydrogen investment already announced, the total could soar to $30B by 2030.

**Life science hub**
Rapidly advancing biotechnology and pharmaceuticals industries also continue to thrive in Edmonton.

"We're working on becoming a biomanufacturing hub for the West," MacDonald said.

**Global logistics**
Edmonton's strategic location gives it an often-overlooked commercial edge.

"By air, we are tied with Vancouver as the closest North American city to Asia," she noted. "Our rail connection to Prince Rupert gives us a two-week advantage over like Los Angeles in moving goods to and from Asia. That time-saving makes this route very attractive."

"We're also developing an inland logistics hub to streamline container shipments, to save more money and time," MacDonald continued. "That's a compelling case for locating in Edmonton which the world needs to know about."

**Top tech town**
Seven post-secondary institutions have given Edmonton the talent to rank among the world's top three cities for artificial intelligence and machine learning.

"That attracts academics, researchers and firms here from around the world, which makes us highly competitive," she said.

**Food and agriculture acumen**
With some 1.7 million acres of farmland, the Edmonton region enjoys unparalleled agricultural access. Opportunities abound in leading-edge fields like plant protein fractionation.

**Acknowledge and sustain excellence**
To continue to turn out world-class talent, Edmonton's educational institutions need to increase capacity, though.

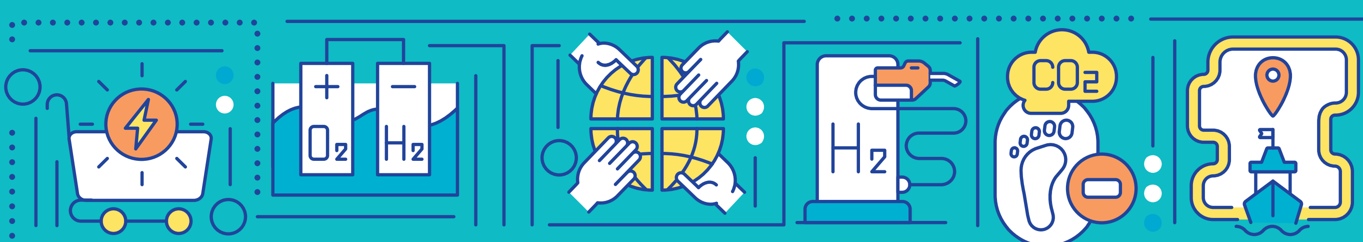
"We teach 25 percent of Alberta postsecondary students," MacDonald said. "About 85% of them remain in the province. To sustain this young demographic, we need more space for newcomers. Today, we are losing 6,000 students a year to other jurisdictions."

"We need to recognize that Edmonton is home to a Nobel prize winner. We're third in the world in artificial intelligence. We're global leaders in fields like autonomous vehicles," she concluded. "We are world leaders. We don't talk about ourselves as world leaders. We need to change that."

■ *Robert Frank*

*"We need to recognize that Edmonton is home to a Nobel prize winner. We're third in the world in artificial intelligence. We're global leaders in fields like autonomous vehicles. We are world leaders. We don't talk about ourselves as world leaders. We need to change that."*


# HYDROGEN ECONOMY




## WHY INVESTORS ARE PAYING ATTENTION

Dave Young
*Executive Vice President &*
*Managing Director*
*CBRE Limited*

Brent Lakewood
*Director of Hydrogen Initiatives*
*Edmonton Global*

Edmonton runs on a lot more than petroleum today. It runs on artificial intelligence, machine learning, life sciences, pharmaceuticals, food and agriculture, logistics, and has also become a major hub for hydrogen. All of this activity bodes well for most real estate asset classes in 2022.

Dave Young, Executive Vice President and Managing Director, Edmonton, CBRE Limited, sees significant rental growth opportunities in the industrial landscape. “Our challenge in the northern part of the province is a supply issue,” Young says. “I think that developers that are putting up speculative product will be the winners.”

As seen in other parts of Canada, post-COVID recovery is well underway. Necessity-based retail business, such as food and drug, is starting to pick up. Multi-family residential continues to attract both institutional and private capital. The office sector, which fared the worst during the pandemic, is experiencing a revival as provincial, federal and municipal governments—the three largest occupiers of office space in Edmonton—return to on-site work. They’re repopulating the Double-A buildings in the core, not so much the unrenovated B and C buildings. Post-pandemic tenants have high demands regarding their physical premises.

As people become reacquainted with office work, it’s too soon to know exactly what the demand for space will be in future. Aside from this uncertainty in the office sector, real estate in general can only benefit from Edmonton’s broad appeal to investors.

**Growth, Yields, and Hydrogen**
The Edmonton market attracts real estate investors thanks to its continued growth, healthy rental rates, and the fact that Alberta properties in general bring higher yields than Toronto, Montréal or Vancouver. All the more appealing and arguably the biggest news for

*“People don't understand that the oil and gas business is actually a tech business. The market has changed dramatically.”*

*Dave Young, Executive Vice President and Managing Director, Edmonton, CBRE Limited*

*"We don't want to over promise, but what we can show on hydrogen is there's a pretty close degree of connectivity between the skill sets developed over the years in oil and gas and what that future hydrogen economy would look like."*

*Brent Lakewood, Director of Hydrogen Initiatives, Edmonton Global*

investors is the ongoing diversification of Edmonton's economy.

What some people don't realize, Young says, is that oil and gas is actually a tech business. "The oil and gas market has changed dramatically. It's not like it used to be, where we had a bunch of rig hands swinging chains and putting pipe in the ground." Rig hands still do those things, but the sector also relies heavily on clean technology for carbon capture and the sequestration and storage of carbon dioxide.

Brent Lakewood, Director of Hydrogen Initiatives, Edmonton Global, says the Edmonton region is all about radical transformation. "We're really trying to position the region as the epicentre of Canada's future hydrogen economy," he says.

Edmonton Global has produced hydrogen in the region for quite a long time but is taking it to another level, "going after what we see as a huge, massive Canadian opportunity that's valued at $100B annually by the year 2050," Lakewood says. "We really think we have a huge story to tell here as one of the lowest cost producers of clean hydrogen in the world."

The most challenging task at this point, Lakewood says, is determining how to get more economic activity from a range of sectors, including oil and gas, transportation, and residential heating systems, where Global has several pilot projects underway. Lakewood doesn't want to over-promise but says there's a "pretty close degree of connectivity" between the skill sets developed over the years in oil and gas and what a future hydrogen economy would look like.

"We've probably got the most advanced projects in the world, and more to come soon," he says. "We've seen companies like Shell putting in solar facilities, right adjacent to their chemical facilities in the Edmonton region. Even the Edmonton International Airport is looking at solar. So we've got bio derived hydrogen projects here. Many oil and gas workers will be shifting towards this, which is actually one of the most exciting things about it."

■ *Michelle Morra*

# HOUSING AFFORDABILITY, LOW BARRIERS TO ENTRY AND LEADERSHIP CULTURE: EDMONTON ADVANTAGE CONTINUES DRAWING INVESTORS AND TALENT

Kalen Anderson
*Executive Director*
*UDI Edmonton Region*

As the fifth largest economy in the country, what happens in Edmonton matters nation-wide. And as the last big city to offer mortgages at 30 per cent of household income, investors and talent alike are taking notice.

"Thirty per cent is the CMHC's bar for 'affordable housing'. But in other places in Canada, that's been exceeded so far that I don't even know what CMHC will do in the future, because the average across the country is 50 per cent and markets like Toronto and Vancouver are into the seventies, which is crazy," says Kalen Anderson, Executive Director of the Urban Development Institute-Edmonton Region.

"That's 70 per cent of your household income going towards just the cost of your shelter. That is not our situation here."

In addition to its clear housing affordability advantage, some of Edmonton's strongest draws for investors include a diversified economy, a thriving post-secondary culture and higher than average wages.

Its geographic position also allows it to leverage the concept of Port Alberta, a regional inland port providing transportation, logistics and supply chain solutions that connect the province's economy to markets worldwide.

Staying competitive is essential to attracting talent and investment in an era when both are especially mobile, and the best way to do this is by removing barriers, says Anderson. She attributes their success in doing so to culture.

"Our speed to market is considerably better than most other large Canadian cities and even locally within Alberta," she says. "We're a small but mighty group of people between our elected officials and community groups and our investors, developers, and administration.

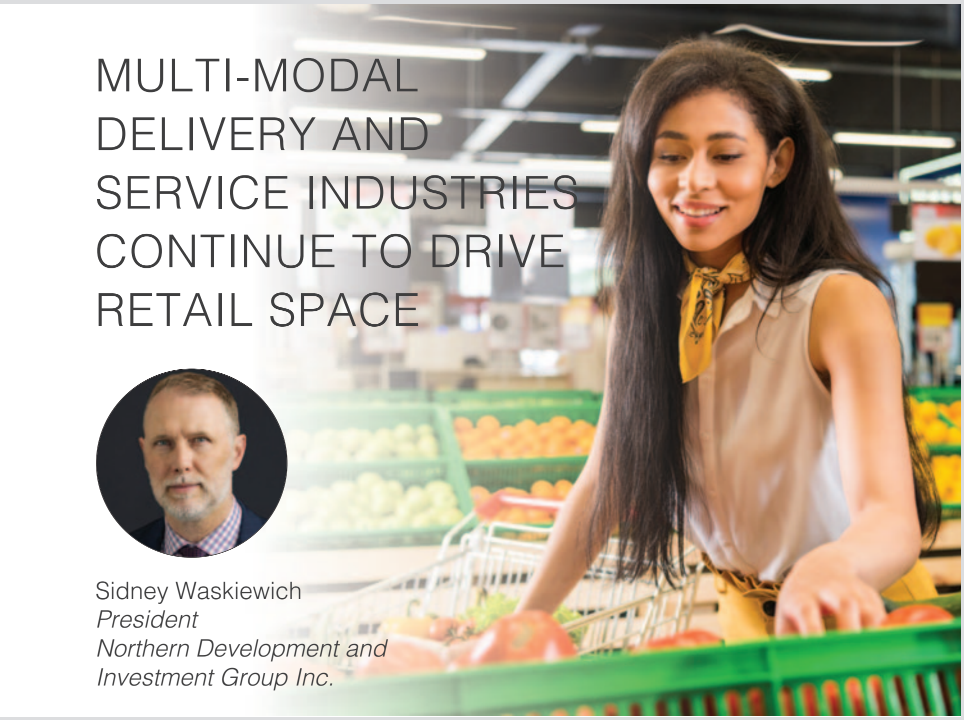
> *"Our speed to market is considerably better than most other large Canadian cities and even locally within Alberta."*

"We work with all 13 communities in the Metro region and their levels of success have everything to do with the points of view of their council and senior administration, so the leadership tone is critically important."

This is underscored by the readiness of both elected officials and communities to accept risk, embrace change, and pivot with the times - "but also look to see where the ball's going," she says.

"While we can find 101 ways to improve processes and timelines for business at a local level, the bigger story is that Edmonton's committed to growing and delivering for not only our city and region, but also across the province and country."

■ *Barbara Balfour*



# MULTI-MODAL DELIVERY AND SERVICE INDUSTRIES CONTINUE TO DRIVE RETAIL SPACE

Sidney Waskiewich
*President*
*Northern Development and Investment Group Inc.*

Cannabis, pets, and daycare. What do these three industries have in common? They could all be major drivers for retail space for years to come, says Sidney Waskiewich, President of Northern Development and Investment Group Inc.

While all three user groups are vulnerable to disruptors, some have demonstrated considerably more stability than others. "I've got some huge question marks around cannabis. We've seen disruption on the industrial side and on the warehousing manufacturing side," says Waskiewich.

"Some cannabis stores have done well, while others have not. I don't know if it's due to operational issues, or maybe there's just not as many cannabis users as people thought, but there's still some fallout."

# ALBERTA WILL RANK #1 FOR GDP GROWTH IN 2022

Carla Woodward
*Vice President, Real Estate Construction Services*
*RBC Royal Bank*

While RBC hasn't started asking clients for environmental or ESG audits just yet, determining how to report emissions will play an important role in the not-too-distant future.

"We've joined the Net-Zero Banking Alliance, and recently RBC Economics issued a report about balancing the world's energy needs with Canada's climate goals," says Carla Woodward, Vice President of Real Estate Markets at RBC.

"With the war in Ukraine, international demand for energy from our part of the world is going to go up. And so it's going to be important to control emissions. We do know those requirements are coming, but we're not changing any of our underwriting right now."

Meanwhile, institutional investors such as pension funds are already looking for investments that meet ESG standards. Woodward has observed a growing interest in new CMHC product offerings that consider green qualities based on a point system.

"Our clients have been interested in taking part in this program to get better financing. The banks can provide much better lending rates and up to 50-year amortization on a loan for a multi-family property," says Woodward.

"Many development companies had negotiated a certificate of insurance with CMHC with certain rate ceilings. That pricing is based off the 10-year Government of Canada rates, which went up significantly earlier this year."

As a result, those companies have had to negotiate new certificates from CMHC with higher ceilings, while putting in more equity.

"They're already putting in some of the features in their properties that they know the regulatory environment will demand down the road," says Woodward.

Meanwhile, spreads have been narrowing in both the commercial mortgage and construction financing space this year. For the first time since 2015, the province of Alberta has been experiencing positive inter-provincial migration.

"Our Chief Economist, Craig Wright, told several hundred of our clients recently that our 2022 forecast shows Alberta ranking number one in GDP growth of all the provinces at 5.8%. For the rest of Canada, our forecast is 4.3%," says Woodward.

*"With the war in Ukraine, international demand for energy from our part of the world is going to go up. And so it's going to be important to control emissions."*

"Alberta has the two cities with the most affordable housing in all of Canada. Energy prices are up, which obviously helps, and business has really picked up. As a result, we're having to be a lot more competitive."

■ *Barbara Balfour*

While Waskiewich points to recent news reports of shelters overwhelmed by unwanted pets, he still believes pet store retailers will be strong anchor or mid box retailers for shopping centres. Of all three user groups, daycare tenancies have proven to be perhaps the most lucrative source of rental income in the shopping centre business, taking up as much as 10,000 square feet.

"If they're tied to a strong residential neighborhood or an office building, daycare can be a very good use for retail space," says Waskiewich.

Another retail tenancy that proved its stability through the COVID-19 pandemic is the brick-and-mortar grocery store. Despite the popularity of delivery and click-and collect options, Waskiewich firmly believes they are here to stay as long as they provide consumers with multi-modal delivery options.

*"People want the flexibility of not needing to haul their three young kids to the grocery story just to get toilet paper. But they still like the social aspect of going to see their fruits and vegetables and pick out their meats."*

"People want the flexibility of not needing to haul their three young kids to the grocery story just to get toilet paper. But they still like the social aspect of going to see their fruits and vegetables and pick out their meats," he says.

Waskiewich notes that tenants who provide multiple service models are increasing their warehouse space as a result.

"While we're mainly a retail developer, we also have some industrial development projects underway, and tenants are approaching us wanting to take up more space, not less. They're worried about supply chain issues," he says.

"They're hedging their bets on making sure they have more than enough product today, in the hopes that they can get better pricing on the front end rather than waiting for just-in-time delivery."

■ *Barbara Balfour*

# RISING RATES PUT PRESSURE ON PRODUCT PERFORMANCE

Brandon Kot
*Managing Director*
*Canada ICI*

There's no doubt that underwriting pose more challenges, after interest rates increased some 40 percent in 90-days, squashing capitalization rates.

"That is putting significant additional pressure on product performance, as margins thin, from a cashflow perspective," acknowledged Brandon Kot, Managing Partner, ICI Canada. "It's difficult to project long-term cash flow on short- and medium-term construction projects. Compressed levered returns have fostered a growing disconnect between vendor and purchaser expectations for existing assets. That will heighten risk, until rates return to a predictable path."

The good news, though, is that Edmonton is well-placed to absorb the shocks.

"We're seeing signs that the regional economy will remain buoyant, despite widening interest rates," he reassured. "Edmonton has developed a productive economy here that has diversified into a variety of growth sectors."

"It also doesn't hurt when West Texas Intermediate grade crude oil is trading above US$100 a barrel," he added.

Inflation that ratcheted prices up more rapidly in expensive markets like Toronto and Vancouver, has made Edmonton's more manageable cost-of-entry more attractive to multi-family residential and industrial investment.

"There remains room for rental rate growth in those specific pockets of the market," Kot predicted. "We can expect to see some economic gains flow from that, in the short- to medium-term."

**ESG policies to goose growth**

Edmonton's real estate market is also poised to gain from policies aimed at bolstering the federal government's environmental, social and governance (ESG) objectives.

Though most of the tangible benefits remain around the corner, Canada Mortgage and Housing Corporation (CMHC) already rolled out a select financing program, March 4, which evaluates individual project proposals according to specific, quantitative ESG criteria.

The initiative focuses on a limited range of ESG aspirations, mainly affordability, as well as energy efficiency and accessibility. It offers attractive inducements to undertakings that qualify: Up to 95% financing of cost or value—depending upon whether it is a construction or acquisition project—as well inflation-cushioning amortization periods that span up to a half-century.

"This will spur a significant amount of activity in the multi-family space, despite widening interest rate," Kot concluded. "ICI is doing a tremendous amount of this work today. Many more types of ESG are possible in coming years."

■ *Robert Frank*

# OFFICE WORKERS GETTING A LIFE

Cory Wosnack
*Principal & Managing Director*
*Avison Young*

The Avison Young Vitality Index is a real-time window into daily foot traffic estimates. As of April 4th of this year it says that Edmonton has the highest return to downtown, activity-wise, compared to pre-COVID, of all 23 major markets in North America.

Cory Wosnack, Principal & Managing Director, Avison Young, attributes the return to the office to a few factors. One is that Alberta had fewer restrictions during the pandemic than other Canadian provinces and removed its restrictions sooner. Another is that Edmonton relies less on public transportation than Toronto and Vancouver, cities where people hesitated to get on crowded trains at the height of COVID.

"Edmonton is still a very car dependent city," Wosnack says.  "In this case, that has actually been beneficial for now."

The success of downtown Edmonton is no longer reliant on its corporate presence. Landlords are choosing locations based on where staff want to be, "and frankly, it's not always in the office," Wosnack says. "It's where they want to be when they're off the floor. The more socially active downtowns result in a more successful business presence, not the other way around."

Even at work, the social element is gaining in importance. Using space as a way to develop deeper working relationships involves managing buildings like luxury hospitality spaces, driven by great amenities.

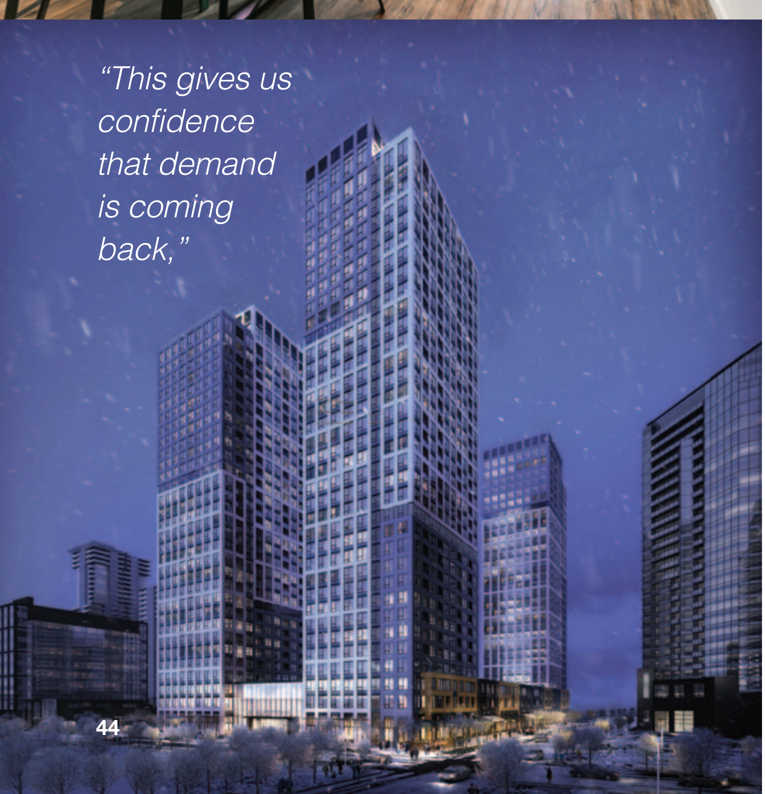
"Successful properties need to have first class fitness and conference centres and social meeting spots, touchdown areas, and social gathering areas," Wosnack says. "We need to develop work environments that appeal to that largest generation in the workforce today, those who seek busy coffee shops and hotel lobbies, and work at the bar or restaurant with their laptop, because they like that high energy environment."

During COVID, people's homes became like the office, and now the office needs to feel more like home. To that end, Wosnack says his own workplace has created living rooms. "They're our most popular rooms in the space," he says. "It's couches, soft seating, cool lighting and art."

One thing the pandemic proved to employers was how well people can work independently. To give staff a feeling autonomy, employers need to be okay with not having them in the office every hour of every workday.

"Let's face it, we were already on that trend," Wosnack says. "You hope that the strength of the relationships that come from an in-person experience, while layering in some autonomy of choice of employees to work differently, could create the formula for the best stickiness."

■ *Michelle Morra*




# MARKET OVER MANDATE

Thomas Burr
*Vice President, Mixed-Use*
*ONE Properties*

After a difficult few years with depressed oil and the effects of the COVID-19 pandemic, there is reason for optimism at the macro level and in terms of market fundamentals of multi-family product in Alberta. ONE Properties has continued to actively develop in the last few years, not least with Southpark on Whyte in Edmonton and BLVD Beltline in Calgary, two buildings where lease-up of units are proceeding slightly ahead of the program.

“This gives us confidence that demand is coming back,” says Thomas Burr, Vice President, Mixed-Use Development, ONE Properties. “We're also seeing more inward migration into provincial international at the project level, and that is reassuring.”

ONE Properties tackles inflation by focusing in on efficiencies and establishing very good relations with their supply chain. “Fundamentally, developing and operating buildings requires a collaborative approach,” Burr says. “We want to design high-quality products and be a good partner, and this means being a good developer for our supply chain and being as efficient as we possibly can.”

The 15-minute neighbourhood, a concept whereby the necessities of work and play are accessible to people by no more than a 15-minute walk, is evolving. While new urbanist mandates coming out of planning departments often say retail should be maximized on all ground floor opportunities, Burr says that decision must be supported by market demands.

“Yes, on main streets, corridors, key commercial nodes, we're absolutely investing in the right retail spaces in those areas. However, that shouldn't be mandated from the planning departments. It must be supported by the market.”

There are other ways to enliven streetscapes and provide animated, activated frontage for mixed-use buildings. This can include placement of fitness centres and rooftop gardens, features that expand the space occupied by residents. According to Burr it’s not just about a mandate. It’s the right thing to do, especially now.

“The effects of the pandemic and working from home have created some long-term trends, which is an opportunity. When we look at planning homes now, it's not just a crash pad. Residents will be spending some or all of their time working from home, so how do we provide a stimulating, well-lit environment?”

■ *Michelle Morra*

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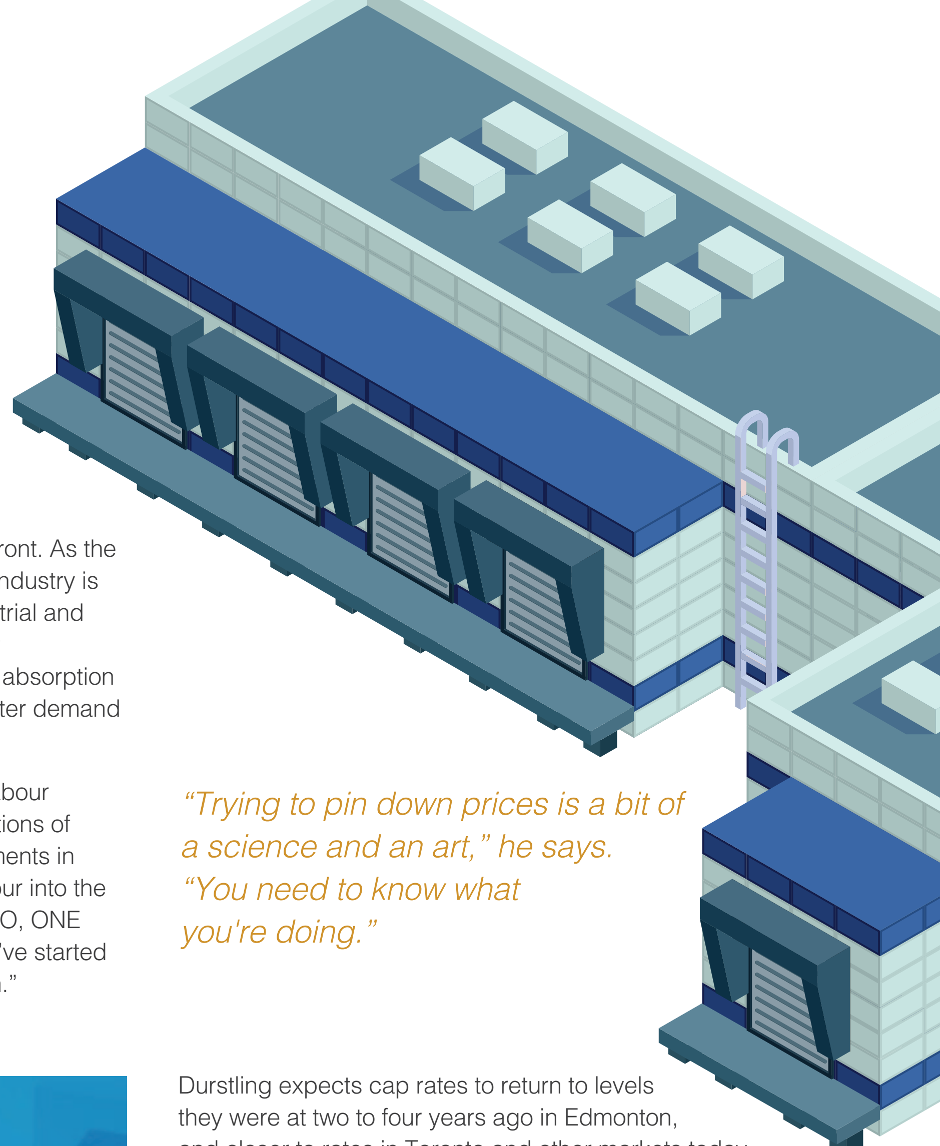
# TOUGHING OUT SOME TOUGH CONDITIONS

Darren Durstling
*President & CEO*
*ONE Properties*



Edmonton is poised for growth on the real estate front. As the pandemic seems to be receding, the oil and gas industry is picking up again. On the development side, industrial and multi-family are the two main property types under construction. Industrial in particular is seeing high absorption levels and scarcity of product, which point to greater demand and higher rents going forward.

Meanwhile the sector continues to experience a labour shortage not only in construction, but in the operations of buildings as well. “We’ve got to work with governments in ensuring that we bring more and more skilled labour into the country,” says Darren Durstling, President and CEO, ONE Properties. “Over the last three or four months, we’ve started seeing people being drawn back into the oil patch.”

*“Trying to pin down prices is a bit of a science and an art,” he says. “You need to know what you're doing.”*

Durstling expects cap rates to return to levels they were at two to four years ago in Edmonton, and closer to rates in Toronto and other markets today. “The spread between an industrial product in Edmonton and that in Toronto is too great,” he says. “Its valuation difference is too great, and you'll start to see people pay a little bit more for a lot of product going forward.”

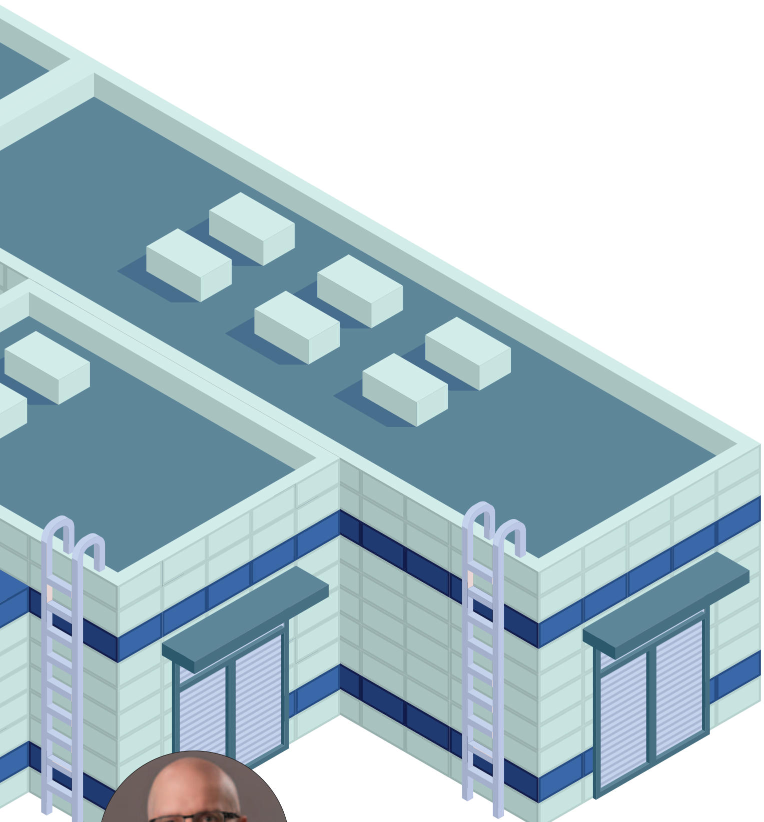
He would like to see more activity around purpose-built rental, an asset class where Edmonton has a scarcity of good product. “I think purpose-built rental is about affordability,” he says. “When you look at the alternative of buying a home where you need to qualify for a mortgage, you need five or ten percent down.”

Some of the inflationary and logistical challenges affecting builds in Toronto and other cities are less of a concern in Edmonton, Durstling notes, but everyone still grapples with high construction costs. Over a year ago, ONE Properties started to procure a lot of product early, like steel joists for their warehouses. They bought materials directly from suppliers instead of through contractors, which has helped somewhat. Still, Durstling says, there’s a lot more risk in the development business than over the last 20 years.

“Trying to pin down prices is a bit of a science and an art,” he says. “You need to know what you're doing.”

■ *Michelle Morra*

# BUYERS TAKING NOTE OF EDMONTON'S LOWER CAP RATES AMIDST OIL AND GAS BOOM



Kelly Hanczyk
*Chief Executive Officer*
*Nexus REIT*

The establishment of a solid presence in Edmonton has proven to be a sound strategic move for Nexus Industrial REIT – especially when everyone else was moving out at the same time.

One advantage has included access to newer assets at better cap rates than in other major cities. Now that the oil and gas industry has come roaring back, Nexus's move to set down roots in Alberta's capital is showing promise of becoming even more fruitful.

*"You'll start seeing rents creep up in Edmonton for sure."*

"With oil and gas firing on all cylinders, this should hopefully open the market to more transactions of good quality real estate. I think you're going to see people with major portfolios looking to monetize now, while Edmonton is still in a pretty flat growth cycle," says Kelly Hanczyk, Chief Executive Officer and trustee at Nexus.

"While Edmonton is seen as the poor cousin to the other markets, we're seeing the vacancy rate slowly closing down here. I think it's sub 6% now and dropping. As a result, we will see rental growth - not like what we've seen in Toronto, Montréal or Vancouver, but you'll start seeing rents creep up in Edmonton for sure."

Hanczyk says he expects to see net absorption take off in the next few quarters due to a lack of product coming onto the market in the next future. While a large increase in transactional activity could be possible over the next 12 months, the rapidly rising cost of debt is giving him pause, he says.

"There's a slight disconnect right now between vendors and purchasers on a cap rate basis that needs to shake out so we will see how it all comes to fruition. I've heard of portfolios that have been pulled off the market just because the vendor was not getting the response they were hoping for," he says.

"This takes a lot of the smaller buyers out of the equation. It could be quiet for a little bit until debt settles down."

Meanwhile, buyers who wouldn't have even considered Edmonton before are taking note of its cap rate differential compared to other major markets.

"We've been able to do a number of deals with good, stable, long term-tenants," says Hanczyk. "It's still a pretty large market out here."

■ *Michelle Morra*

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INSIGHTS FROM INDUSTRY LEADERS DURING THE CONTENT FORMATION OF THE MONTRÉAL REAL ESTATE FORUM

## 1

### UNEMPLOYMENT RATES ARE DOWN, AND LABOUR CONTINUES TO BE A CHALLENGE FOR MANY COMPANIES

A speedy recovery in Quebec from economic effects of the Omicron variant, as well as inflation, changes the labour landscape.

## 2

### INVESTMENT ACTIVITY IN GREATER MONTRÉAL GREATLY IMPROVED DURING THE PANDEMIC

Capital availability is robust and the multi-residential, industrial and land sectors are all capturing investor attention.

## 3

### INVESTOR RATES OF RETURN STABLE DURING H2 2021 AND SHOULD REMAIN STABLE THROUGHOUT 2022

Forecasters project little to no change in rates on the horizon.

## 4

### THE PLAYERS ACTIVE IN THE MONTRÉAL MARKET ARE CHANGING CONSIDERABLY DUE TO MAJOR TRANSACTIONS AND EXPANSIONS

The results of the sale of the assets of Cominar REIT has resulted in a significant shift.

## 5

### DEMAND FOR INDUSTRIAL PRODUCTS REMAINS VERY STRONG

Average rents are predicted to increase, and land values are growing along with them.

## 6

### CARE-ORIENTED RESIDENCE PROJECTS ARE INCREASING IN THE GMA, DUE TO A LARGE OVER 85 POPULATION

The proportion of elderly citizens in Montréal is projected to increase dramatically.

## 7

### CLASS A&B OFFICE AVAILABILITY RATE FOR DOWNTOWN MONTRÉAL HAS INCREASED DRAMATICALLY SINCE Q1 2021

Delays in returns and hybrid work models will most likely cause rates to continue to rise.

## 8

### 2021 WAS THE FIRST “YEAR OF THE SUBURB” IN MONTRÉAL’S MULTI-RESIDENTIAL MARKET

Record absorption rates, low vacancy rates and rental increases characterized the last year in the suburbs of the city.

## 9

### CONDO RESIDENTIAL IS A TIGHT RESALE MARKET WITH LOW INVENTORY

As the rest of the Canadian housing market has become extremely heated, more reasonably priced markets like the Montréal CMA are getting more attention. There is less than 3 months of condo inventory available in Montréal.

## 10

### LAND REMAINS IN STRONG DEMAND, PARTICULARLY FOR READY TO DEVELOP AND TRANSIT-ORIENTED-DEVELOPMENT (TOD) SITES THAT ARE GEARED TOWARDS HIGHER DENSITY IN THE SUBURBS

Montréal has embarked on the largest public transit project in 50 years, prompting investors to look to the outskirts of the city.

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

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# MONTRÉAL: IN FULL BLOOM

Roger Plamondon
*President, Real Estate*
*Broccolini*

Natalie Voland
*President &*
*Chief Vision Officer*
*GI Quo Vadis*

Montréal's development, brokerage and investment community has a proven ability to pivot. COVID-19 demonstrated this more than any other financial crisis we have witnessed. Struggling retailers have shifted into the industrial market. People who were brokering large deals pre-pandemic entered the sub-leasing market. Office workers pushed past all talk of doom and gloom and learned how to work together through video-conferencing.

As a city that isn't over-speculated, Montréal is poised to come out of the pandemic cycle stronger than some other Canadian cities. Massive infrastructure and transportation programs were already underway pre-COVID, which puts us in an advantageous position. We still have our fundamentals, our university campuses, our urban core with residential neighbourhoods.

Affordability of housing is a worldwide challenge. Canadian cities are no exception. Developers in Montréal must work with the municipality and province to find innovative solutions here at home.

In today's red-hot industrial market, land is scarce. It will become more scarce with increased government measures to protect agricultural areas and wetlands. Industrial tenants returning to the market are finding that rents have increased, while their businesses may not have progressed at the same speed. A challenged supply chain and increasing operating costs make for a tough environment in that sector. Meanwhile, the industrial real estate asset class continues to enjoy its honeymoon phase.

As workers everywhere return to offices, we expect that owners of Montréal's older B and C type office space will need to rethink their offerings as the newer, better ventilated and more sustainably designed spaces increasingly meet tenants' demands. Developers face an obligation to be environmentally sensitive. Governments are increasingly on board and forcing our hand.

Montréal is a city universally loved for its affordability, diversity, world-class dining, night life, and sheer beauty. As our industry helps the city to grow, we must also preserve everything that makes Montréal unique and not let it fall prey to cookie-cutter development. As impressed as we are by our entire industry's skill at adapting to fast and frequent changes in our world, we must come together to fiercely protect the reasons why Montréal is so awesome. There are ways to foster outside investment and profitable ventures for developers while preserving that homegrown quality, the je ne sais quoi or "special sauce" that makes Montréal a city unlike any other.

For two years, our Real Estate Forum organizers did a wonderful job of shifting to a virtual environment when much of the world was in lockdown. Now, at last, our delegates can again meet in-person.

We have a great program that covers the environmental aspects of real estate, as well as how to build smarter, more accessible properties, and how to adapt the office environment to a workforce whose needs and wants have changed after two years of working from home. You will meet new presenters as the old guard gradually step out of the market, making way for the next generation of real estate professionals and developers coming on stream with their vision of a new and better world.

■ *Michelle Morra*

# BIG REASONS FOR MONTRÉAL INVESTOR APPEAL

Scott Speirs
*Executive Vice President*
*National Investment Team*
*Capital Markets*
*CBRE Limited*

*"For the first time on record more Ontarians moved to Québec than vice versa in 2021. A truly remarkable turnaround for our great city and province."*

Montréal is attracting real estate investors today for three reasons. Economic performance is the first reason. The city's pricing, relative to other Canadian markets, is the second. A positive outlook for future grown is the third.

Québec's economy has been remarkably resilient through the pandemic, boasting the lowest unemployment rate and strongest GDP growth in Canada for 2021. That economic performance has resulted in a significant increase in investor demand. "2021 was a record year for investment volumes with more than 10 billion in transactions and a significant number of new investors to the Montréal market," says Scott Speirs, Executive Vice President, National Investment Team at Capital Markets CBRE Limited.

Speirs says that from a pricing perspective, Montréal looks very attractive relative to Toronto and Vancouver. "There continues to be a material discount on pricing on a per square foot basis relative to those markets, though the cap rate differential has narrowed over the past few years," he says.

Finally, Montréal is poised for growth with its highly diversified economy, and its strong labour pool supported by four universities. Significant infrastructure investments aim to provide Montréal with world class transit, a fiscally conservative government, an abundance of clean energy, and an exceptional quality of life. In fact, Speirs says, "for the first time on record more Ontarians moved to Québec than vice versa in 2021. A truly remarkable turnaround for our great city and province."

Montréal's industrial and multi-family asset classes are seeing quite a rise in new investors both domestic and international. And as of recently, even office space is regaining momentum. The office asset class is seeing a flight to quality as tenants look to upgrade their spaces, take advantage of market conditions, and attract employees to return to work onsite. That's to the detriment of the lesser quality buildings, which will face downward pressure on rental rates.

CBRE represented Blackstone Real Estate in its recent acquisition of two major office properties in Montréal, 1100 Atwater and the mixed-use Air Canada-Altoria tower, for over $230 million from Kevric Real Estate Corp.

"The fact that Blackstone is targeting office as an asset class, and Montréal in particular, really speaks volumes about the future growth of the Montréal marketplace."

■ *Michelle Morra*

# FINANCE FORMS FRONTLINE IN FIGHTING CLIMATE CHANGE

Alison Chave
*Vice President*
*Debt Capital Markets*
*JLL*

Creditworthiness has moved to the forefront of the snowballing sustainable, environment-friendly real estate market.

"Raising capital for appropriate projects is rapidly gaining momentum," declared Alison Chave, Vice President and Practice Lead, Debt Capital Markets–Canada, JLL. "Banks, institutional and other highly capitalized funds in Canada, all want green, sustainable assets in their portfolios. We're even seeing interest from high net-worth groups in Québec."

Ivanhoé Cambridge is at the forefront of this transition – issuing $300M in green bonds in 2019 to finance the "greening" of Place Ville Marie, Place Ste-Foy, CDP's head office in Montréal as well as the new Manuvie Building. We should be proud of what Québec institutions are doing.

The global debt market for green and sustainable financing started off at $29 billion USD in 2013. It since has increased one-and-a-half times, every year, reaching $1.6 trillion USD in 2021.

"We're expecting $2.6 trillion USD in 2022," she forecast. "That's a big shift."

Canadian developers can expect greater access to capital, higher leveraged loans and longer amortization for sustainable assets. Europe has gone even farther, offering interest discounts—or penalties for failing to deliver on green promises.

Design and construction techniques have already shifted to more modular construction to taper building costs, as well as carbon footprints.

"In one case, thinner slabs provided more floors for the same building volume," she observed. "That can generate more revenue per square foot."

On the multi-family side, she notes that the Canada Mortgage and Housing Corporation is offering great sustainable options with its new MLI select program, with incentives including up to 95% financing and 50-year payback periods. No wonder borrowers have been rushing to get applications in.

> *"Lenders are finally understanding that financing green and sustainable assets help their clients, their shareholders and eventually reduce their carbon output. It's a huge shift!"*

"Again, you get more leverage, longer amortization and leap to the front of the queue—better returns, better conditions for tenants and a better planet. Who can argue with that?

**Dodging the brown discount**

"The risk on green assets is perceived as lower," she explained. "A building that won't be obsolete in 30-40 years commands a premium. Our appraisers are already seeing that. It's quantifiable: Higher occupancy rates, lower insurance and lower cap rates, in addition to happier tenants."

Some Canadian real estate investment trusts are already retrofitting their properties so that they don't get caught up in the coming brown discount.

"You will see even more performance quantification emerge in 2022," Chave added. "There's also reputational risk to consider. You don't want to be the landlord with the brown buildings."

As consensus steadily solidifies around how to measure environment and sustainability virtues, lenders will increasingly alight their creditworthiness benchmarks.

"Lenders are finally understanding that financing green and sustainable assets help their clients, their shareholders and eventually reduce their carbon output. "It's a huge shift!"

■ *Robert Frank*

# EXPERTISE TO EXPORT

Richard Dansereau
*President, Real Estate Division*
*Groupe Sélection*

Groupe Sélection plans to lever its longstanding success serving seniors to tailor new rental properties to suit other age groups' specific needs—and to extend to elsewhere in Canada the model that it has perfected in Québec.

"If we can cater to an older clientele, delivering specialized services mainly to retirees—who generally live in the unit 24/7, 365 days a year—we can manage pretty well any resident," said Richard Dansereau. "We want to branch out to deliver services to millennials, young families and empty nesters, as well."

Dansereau heads Groupe Sélection's new real estate division, whose mission is to grow the business geographically, as well as demographically, with brands that appeal to each age group.

"We've covered Québec, we love Ottawa, we very much like Calgary, Edmonton, Victoria and Vancouver, and we like Toronto—though that's a tough place to secure sites," he said. "Across North America, an aging population and millennials' desire not to be tied to property have fueled demand. Groupe Sélection has the infrastructure, the platform

# WALKABLE CITIES START WITH SAFER STREETS

Jeff Speck
*City Planner & Author*

Getting developers to implement more livable spaces is the easy half of Jeff Speck's practice.

"They're putting their money where their mouth is, and wouldn't be undertaking the work unless they planned to achieve it," said the city planner, urban designer. His vision for walkable urbanscapes, which has transformed cities across North America by favouring function over form.

"My life's work has revolved around determining the qualities that lead people to live outside of automobiles," he recounted. "Much of it focuses on the spaces between buildings. Instead of sculpting them as standalone objects to be admired, I focus on the spaces between the buildings and how the individual structures work cohesively to deflect attention from themselves and toward a collective environment that they shelter, enliven and embrace."

Enabling people to live, work and play within walking distance entails reversing postwar planning nostrums and reintegrating neighbourhoods where land use has hitherto separated uses through zoning.

"That has largely been discredited, because most industrial processes no longer pollute," Speck noted. "There has been a tremendous shift in thinking about cities that taps much more into how we have always made places—except for this strange, 50-year confusion that began in the middle of the 20th century."

> *"We really have to fight to change the traffic engineering discipline, which has been doing the equivalent of what doctors once did to patients by bleeding them with leeches."*

The tougher task is getting municipalities to implement the changes that they espouse: smaller carbon footprints, longer lifespans, sounder social fabric and sustainable economic success.

"There, the challenge always is to create plans that the free market will embrace and implement," he acknowledged.

The main way to redeem unsuccessful public spaces revolves around making them safer for pedestrians and cyclists.

"To get people walk instead of drive, the walk has to satisfy four criteria: It has to be useful, safe, comfortable and interesting."

Developers hold the key to the final two factors, by sculpting the buildings that surround the public space. Municipalities must do the rest.

"Where I spend most of my time with municipal clients is safety, because it's something that a city can fix the fastest," he explained. "Most city streets are needlessly dangerous: A four-metre lane is a 100 km/h lane. A three-metre lane is a 40 km/h lane. Why do we design our streets with four-metre lanes?"

Speck cited several measures that municipalities can undertake to improve city safety. They include tricks that discourage reckless drivers, like reverting multi-lane one-way streets to their former two-way flow; encouraging parallel parking and street trees to protect pedestrians and curbs; and erasing centre lines from streets."

"It's surprising, but when you remove the centre line from a two-way street, people tend to drive about 10 km/h slower," he observed.

Institutional inertia often impedes cities from implementing safer streets, though. Speck often encounters staunch resistance—and sometimes outright unwillingness—from municipal public works and engineering executives.

"We really have to fight to change the traffic engineering discipline," Speck urged, "which has been doing the equivalent of what doctors once did to patients by bleeding them with leeches."

■ *Robert Frank*

and the product with which to respond. That's why we believe that we can grow the business exponentially.

**Build versus buy**
Dansereau expects expansion through acquisition to prove uneconomic. Reliable, revenue-generating rental apartments have remained particularly appealing to risk-averse institutional investors, sending prices skyward.

"They gravitate toward a sure bet, opting for the least volatile of all real estate," he observed, "making it very difficult for us to rationalize a deal. We're better served to expand through development."

**10000+ units in the pipeline**
In Québec alone, the company is already poised to add more than 10,000 units in major urban markets: In addition to delivering 717 units in Laval in June, it intends to introduce almost 300 more in Terrebonne, plus its ambitions for Montréal's massive Molson brewery redevelopment could deliver another 6,000 residences.

"We also have a land bank that would represent an additional 5,000 units," Dansereau added.

Though land is a costly commodity these days, Groupe Sélection is buffered by the land that it astutely accumulated, long before prices skyrocketed.

"Which is why we think that we have an advantage," he smiled. "We sense a strong need for rental apartments in major markets, where there is ample liquidity and sustainability."

"The need will remain for affordable housing," Dansereau acknowledged, "which, by its nature has to be a joint venture between the public and private sector."

■ *Robert Frank*

# RENT RISES RAPIDLY OVERTAKING SMALL-SCALE INDUSTRIAL TENANTS' ABILITY TO PAY

Gil Kastner
*Chief Leasing & Business Development Officer*
*Brasswater*

Soaring construction costs and lengthening completion delays have put a premium on as-is, move-in ready industrial spaces—but, with none available, rents have spiked.

"Prices have paralyzed prospective tenants, who are postponing decisions until they are desperate, and then sign for anything at any price," recounted Brasswater's Chief Leasing and Business Development Officer, Gil Kastner.

Brasswater sees so much potential in industrial that it has ringed Montréal with millions of square feet of development in Laval, St. Eustache, Valleyfield, Beauharnois, Delson and Longueuil.

"We're building all around the city," he said. "We know that if we build it, they will come. The demand is there."

**Clever value creation**
With standard product nonexistent, creative alternatives are needed to thrive in today's industrial market.

"You have to create value in products with warts on it," said Kastner. "Finding ways to make money from properties that no one would consider looking at is where value will be derived, in future."

Is it possible that risk-averse institutions would pay a premium to private entrepreneurs who have thoroughly debugged unconventional industrial product?

"That is already happening in the marketplace," Kastner affirmed. "We have already seen some institutions pay a premium price for creatively assembled product."

**From 'just-in-time' to 'just-in-case'**
Industrial demand will likely be exacerbated by geopolitical upheavals that have upended supply chains and left firms with lean inventories in the lurch—turning the longstanding just-in-time logistics nostrums on their head.

"Those who were unprepared for production to grind to a halt when they couldn't move parts across borders paid a premium price," he observed. "'Just-in-time' has become 'just-about-failure'. To be safe, you need to lean more on inventories."

"One tenant told me that a year's worth of inventory in his shop insulated him from the pandemic. It protected him from inflation. He had to finance it. He had to store it. But because he had invested in the space, he was the last man standing when no one else could deliver product," Kastner concluded. "That means buying more than you need and stacking it higher, in local warehouses. You create buffers, to prevent getting shut down by a shortage."

■ *Robert Frank*

# ESG: SWITCHING TO SUSTAINABLE THINKING

Nawel Gueciioueur
*Sustainability Manager*
*Broccolini*

Investing in environmental, social and governance (ESG) considerations is a form of risk management and sustainable thinking. ESG helps corporations to not only assess and report on, and track, their performance in these areas.

With climate change taking centre stage in terms of worldwide challenges, the "environmental" part of ESG garners a lot of attention. "After a couple of naturel, social and political events, multinationals like BlackRock are taking a firm stand about investing in ESG, green bonds and clean energy, which suddenly increased the whole world interest in ESG as a metric solution to address risk" says Nawel Gueciioueur, Sustainability Manager, Broccolini. " Then COVID came to accelerate the digital transition which benefits the sustainable transition"

Aside from environmental, the social and governance elements are equally important to ESG. All three are, ideally, interrelated.

The general goal of a sustainable business strategy is to positively impact the environment, society, or both, while also benefiting shareholders. The social element involves all people concerned, including employees and the community. "As firms have increasingly embraced sustainability, they've shifted their focus toward creating value for all stakeholders impacted by business decisions, including customers, employees, and community members." Gueciioueur says. "The social component of ESG is playing an unprecedented role. How? For instance, look at who is driving the hiring market. It's not the employers, it's the employees. As a result of COVID we want to work from home. We want to spend more time with family. We don't want to drive for hours, because we have experienced the digital transformation."

The third part of the ESG acronym, governance, makes companies, governments, and anyone with influence, more accountable." "While businesses have historically been the greatest contributors to pollution, they also hold the keys to driving positive change. Many business leaders are now recognizing their responsibility to do so through a sustainable board, able to support the delivery of ESG strategy." Gueciioueur says.

"Time has changed with the THE TRIPLE BOTTOM LINE thinking and awakening; we cannot do business today without evaluating our impact on society and the environment." "Successful organizations are the ones that provide the most value for society, the purpose for employees, consideration of stakeholders, and respect for the environment to ensure their sustainability" "and new regulations are accelerating the transition"

■ *Michelle Morra*

# SHORT-TERM RENTALS THRIVE UNDER THE SONDER MODEL

Marc-Aurèle Mailloux-Gagnon
*Associate Director, Real Estate*
*Sonder*

*Francis Davidson, now co-founder and CEO of Sonder, started renting his apartment to travelers in 2012 to earn extra money while he was studying at McGill University.*

Next-generation hospitality company Sonder is redefining the guest experience through technology and design. The company leases and renovates spacious rooms, fully-equipped suites and apartments in trendy urban areas, and rents them out to travelers and short-term guests.

The pandemic taught us that people don't need to commute to an office to be productive. One resulting trend is the "workation," which involves taking off to a desirable short-term rental accommodation, and getting work done there for a change of scenery. While the hospitality industry was hit hard by COVID-19, Sonder has thrived thanks to its unique business model, its focus on short-term accommodations with clean, COVID-friendly amenities, and the Sonder app, which fulfills the role of a contactless concierge.

Sonder partners with real estate owners and landlords to manage and operate hotels and multi-family buildings. With property owners and developers, the company signs multi-year fixed leases, mixed leases, or revenue share agreements as the anchor or sole tenant in existing buildings and development projects.

"Prior to 2020, nearly all of Sonder's leases were Fixed Leases, whereby Sonder agrees to a fixed periodic fee per unit," says Marc-Aurèle Mailloux-Gagnon, Associate Director of Real Estate, Sonder. "Fixed Leases continue to represent the vast majority of Sonder's contracts with real estate owners."

Sonder also offers flexible contract structures to landlords, including Mixed Lease structures and Revenue Share agreements. The average Sonder property lease has a 5 to 7 year initial term, with up to two 5-year renewals at Sonder's option.

"Our leases commonly include upfront rent abatement to offset the initial setup costs and revenue ramp for new units," Mailloux-Gagnon says. "We also typically structure our leases to include downside protections, including partial rent relief in the event of a recession, and frequently include clauses designed to limit the effects of unfavourable market movements, regulatory changes, and force majeure events."

Sonder was founded in Montréal and currently operates over 385 units in the city. Francis Davidson, now Founder and CEO of the company, started renting his apartment to travelers in 2012 to earn extra money while he was studying at McGill University. In just 10 years, Sonder has grown to manage rental space in over 35 markets spanning ten countries and three continents.

■ *Michelle Morra*



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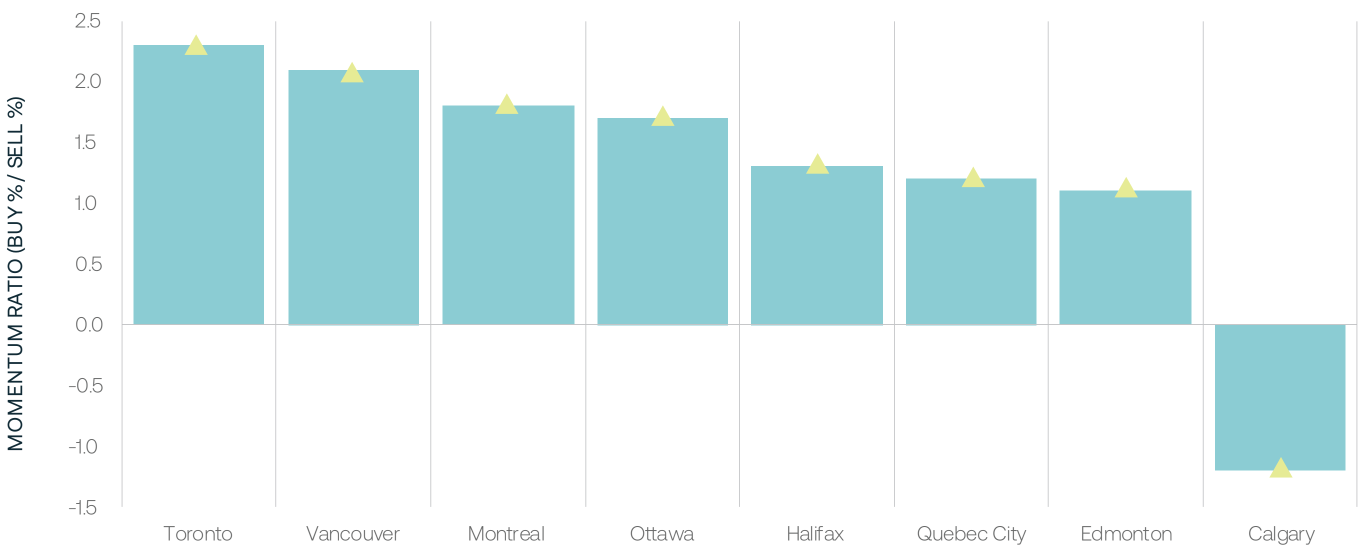
These results are released by Altus Group. Our independent and comprehensive data, analyses and insights are collected and compiled using nationally consistent research processes.

**Toronto has acquired a spot as top most preferred market by investors. Vancouver continues to gain momentum and has maintained a spot among the top markets when compared to Q1 2021**

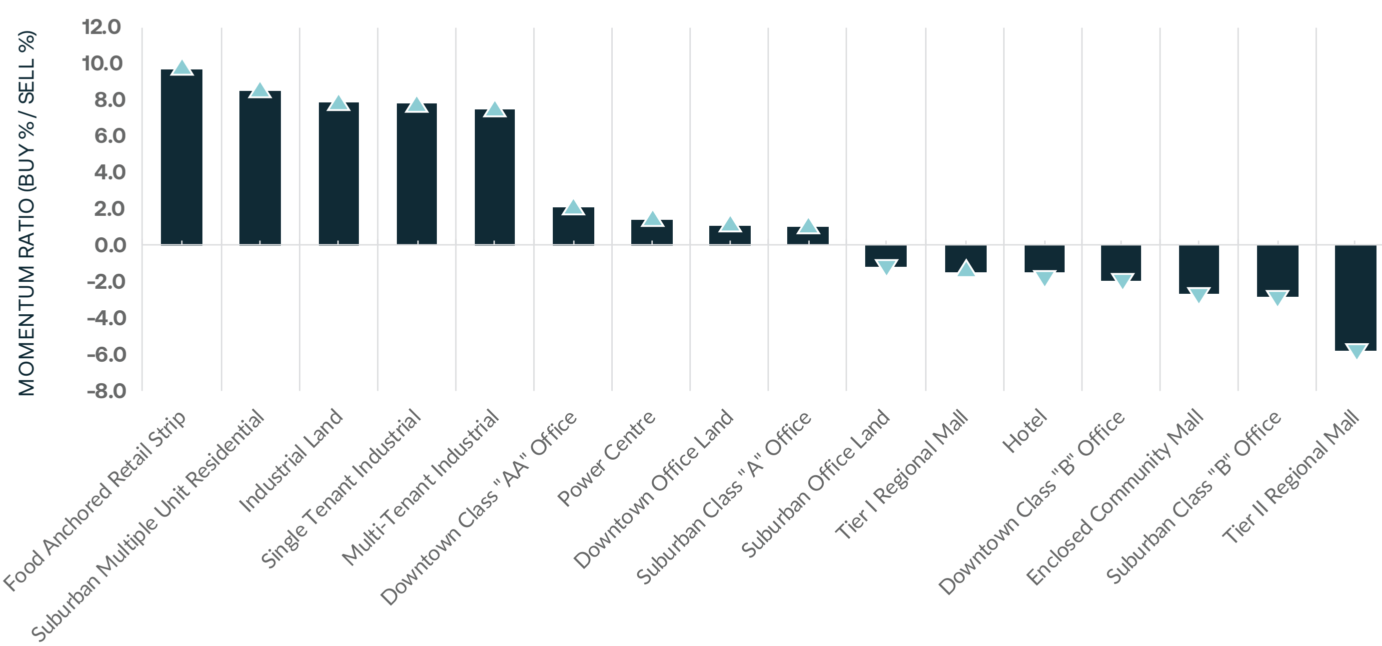
Location Barometer | All Available Products (Q1 2022)




Source: Altus Group Investment Trends Survey

**Food anchored retail remains the most preferred property type while multi residential assets have gained substantial momentum, and all three industrial asset types remain top of mind for investors, experiencing heightened demand**

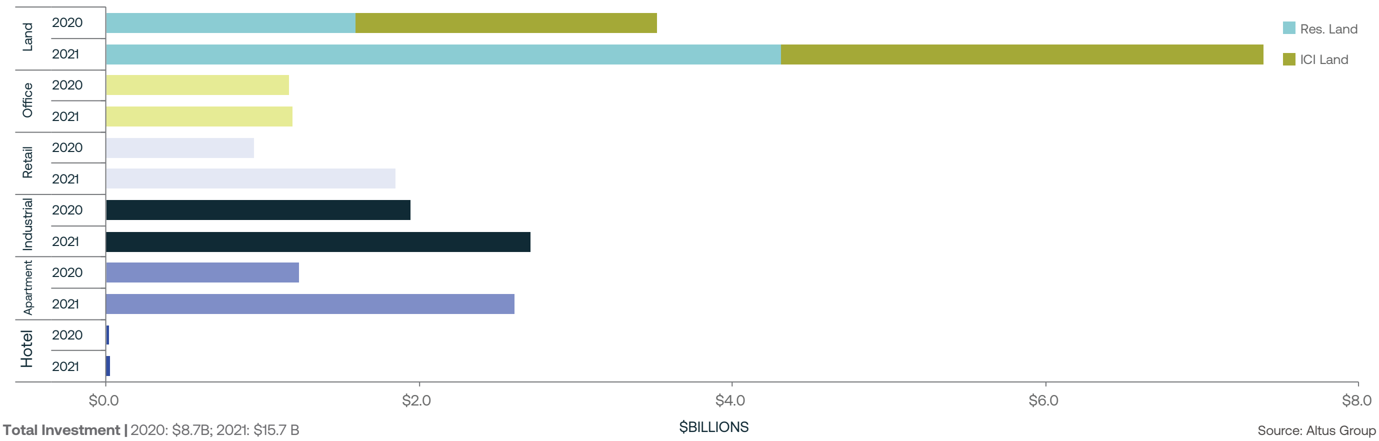
Property Type Barometer | All Available Products (Q1 2022)




Source: Altus Group Investment Trends Survey

## Investment activity in 2021 increased across most asset classes with the land and apartment sectors doubling their investment totals from 2020

Property Transactions by Asset class | Vancouver Market Area, 2020 vs. 2021

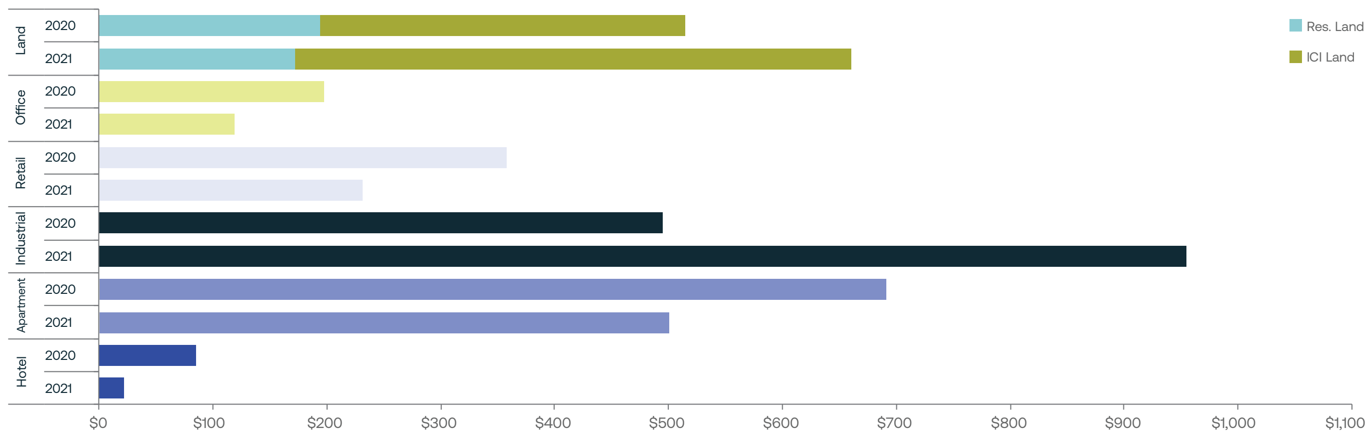



**Total Investment |** 2020: $8.7B; 2021: $15.7 B

Source: Altus Group

## Industrial and land assets saw strong increases in activity levels, while total investment in the other major asset classes have declined since 2020

Property Transactions by Asset class | Edmonton Market Area, 2020 vs. 2021

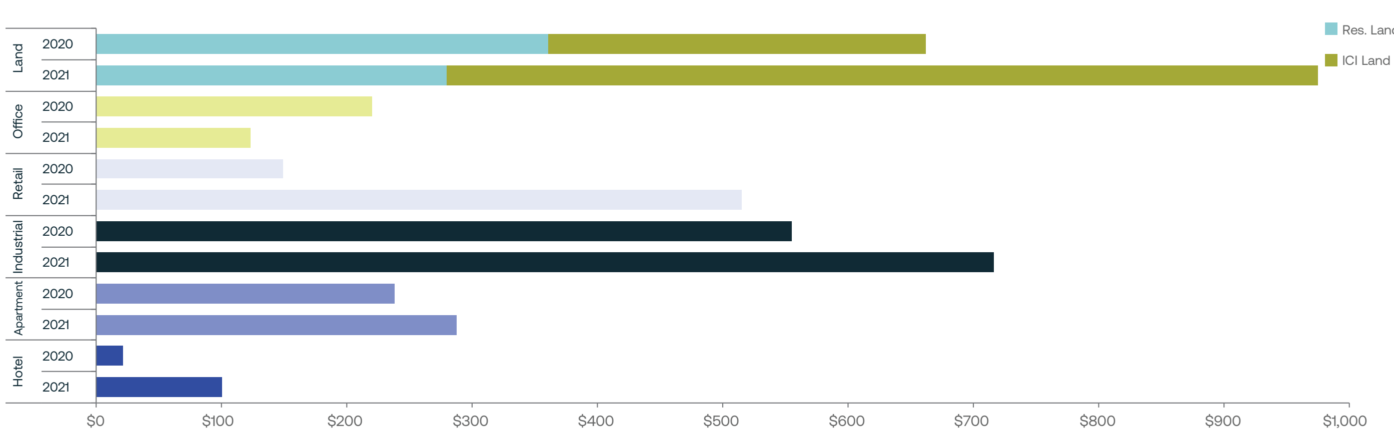



Total Investment | 2020: $2.3 B; 2021: $2.4 B

Source: Altus Group

## Investment activity reported an uptick across nearly all asset classes, more than tripling in the retail sector

Property Transactions by Asset class | Calgary Market Area, 2020 vs. 2021

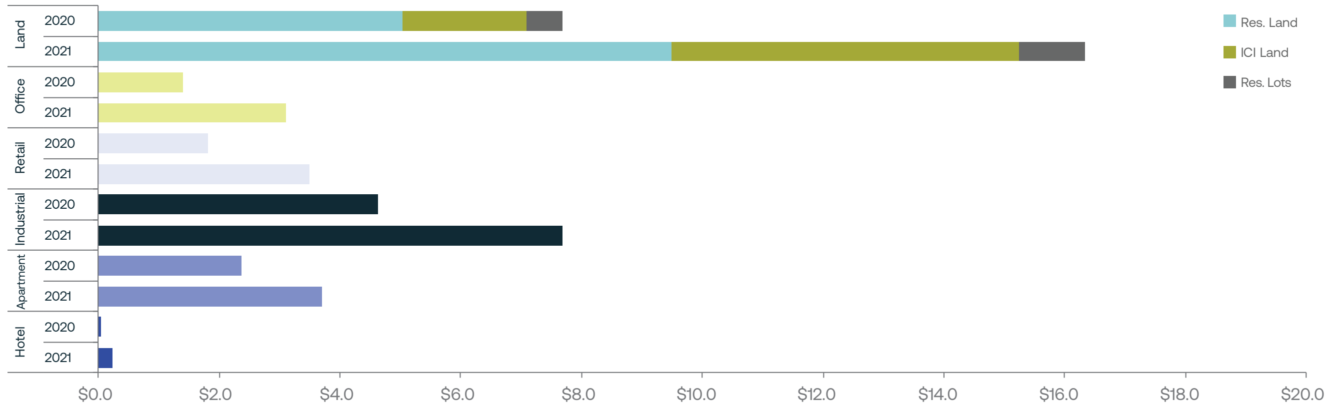



**Total Investment |** 2020: $1.8B; 2021: $2.7B

Source: Altus Group

## Toronto saw notable growth in investment activity across all asset classes with the land and industrial sectors seeing the greatest investment volumes

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



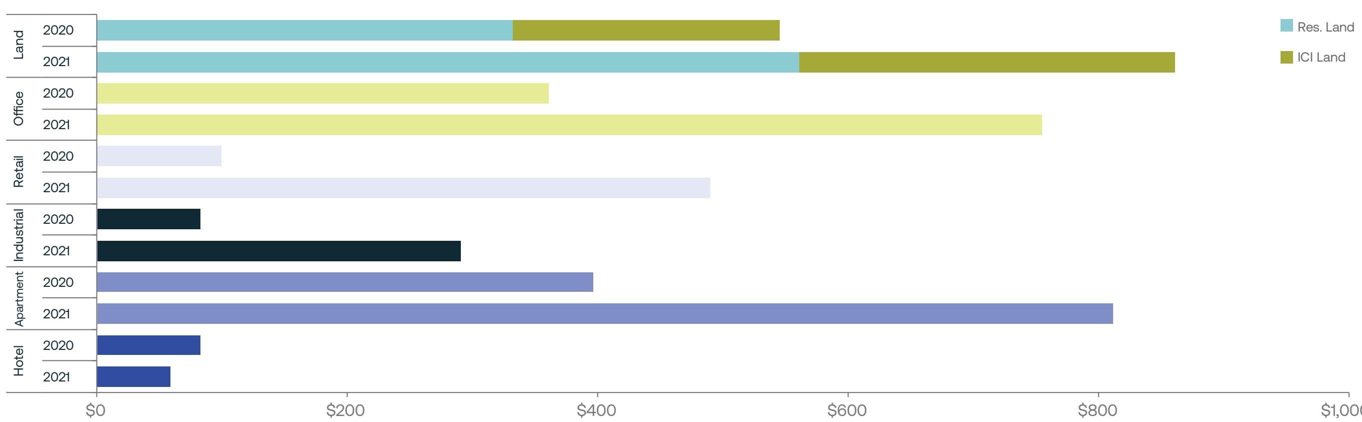

**Total Investment |** 2020: $17.3B; 2021: $33.4B

$BILLIONS

Source: Altus Group

## Investment activity increased substantially in nearly across asset classes in Ottawa except for the hotel sector which reported a slight downturn

Property Transactions by Asset class | Ottawa Market Area, 2020 vs. 2021



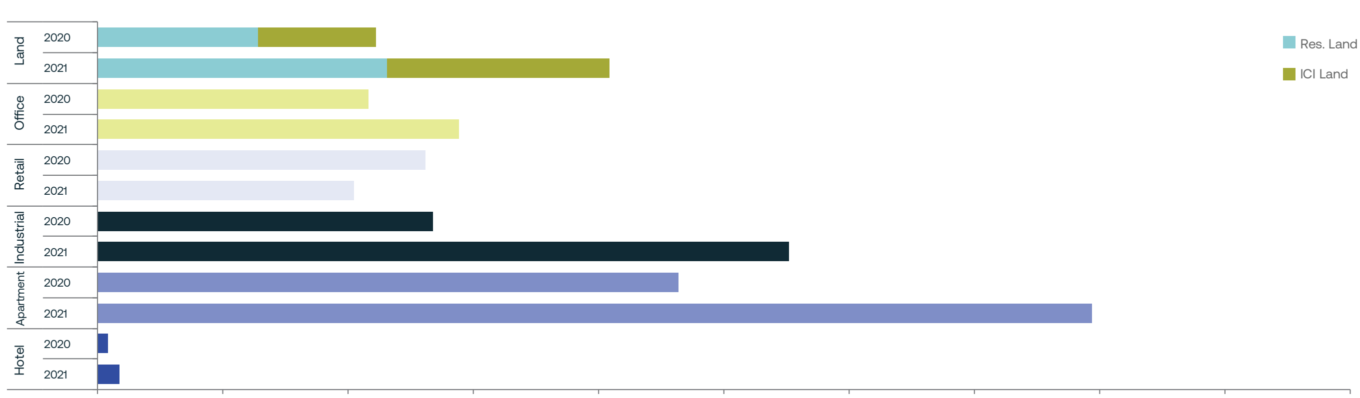

**Total Investment |** 2020: $1.5B; 2021: $3.2B

$MILLIONS

Source: Altus Group

## Montreal saw large increases in investment in the apartment, industrial and land sectors in 2021. Retail was the only sector to not surpass 2020 investment volumes

Property Transactions by Asset class | Montreal Market Area, 2020 vs. 2021




**Total Investment I** 2020: $7.2 B: 2021: $11.3B

$BILLIONS

Source: Altus Group

# MONTRÉAL RETAIL SECTOR BACK IN BUSINESS AFTER 2-YEAR PANDEMIC SLUMBER

Manon Larose
*Senior Vice President, Retail*
*JLL*


After a long, two-year slumber, the retail sector in Montréal isn't just stirring awake – it's practically leaping out of bed.

"In general, we are seeing a lot of optimism now, because many of the projects that were postponed in 2020 and 2021 are finally coming to fruition now," says Manon Larose, Senior Vice President of Retail at JLL, where she heads the retail division for the province of Québec.

Some of those new projects include the launch of flagship stores along the city's most famous street, the iconic Ste-Catherine Street that has long been at the centre of Montréal's identity, culture and retail economy despite faltering in recent years.

"Some flagships that are already in other major cities will be new to market in Montréal. There are also some businesses that started on the web and were so successful that they are now looking at establishing a brick-and-mortar presence," says Larose.

"It's extremely exciting because when you have a healthy main street, it reflects well on everywhere else in the city. So, I have to say that I do foresee a bright future. St. Catherine is going to pick up again."

Apparel and shoes – items most consumers did not purchase much of during the COVID-19 pandemic – are two sectors Larose says are now doing well. But as consumer behaviours continue to shift, Larose predicts city dwellers may change for good the ways in which they shop for groceries.

"Will people shop for groceries the way they do in New York or in Paris, on a daily basis? I think that's another trend we'll be seeing. And we can expect smaller, curated grocery stores that will facilitate the proximity concept of a 15-minute city," she says.

As more people gradually return downtown and residential projects continue to be built, Larose says to expect a surge in foot traffic

"I have to say the biggest trend in Montréal is the multi-use complex, which will feature residential units next to offices and retail, where people will be walking along pedestrian footpaths to run their errands. It's certainly shaping how we are thinking about retail, but there are also challenges to consider – staffing issues, transport, and logistics.

"I have never seen people more resilient than the retailers themselves."

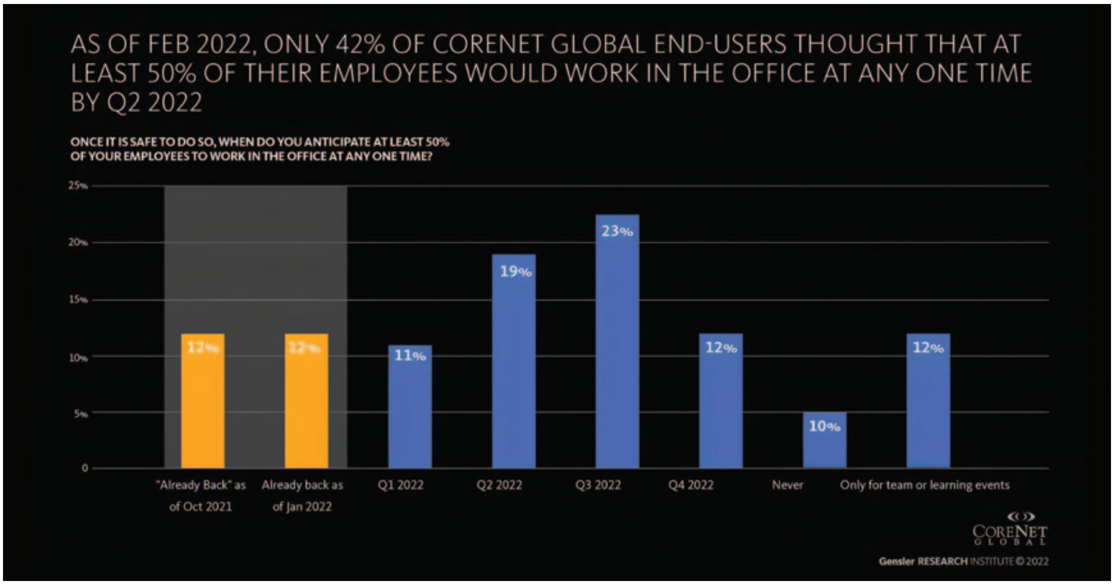
■ *Barbara Balfour*

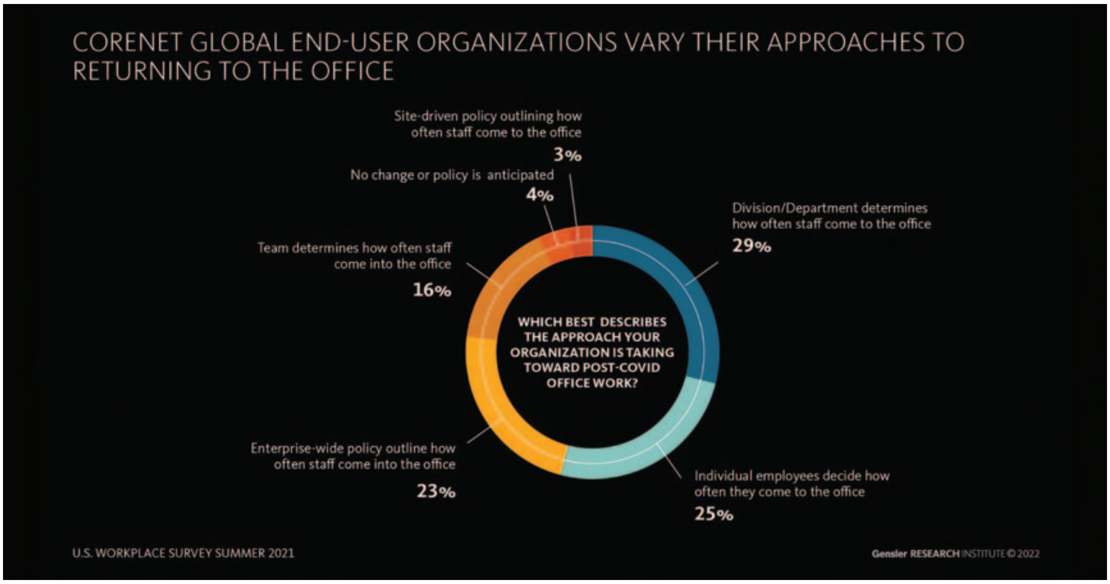

# HOW EMERGING NEW WORKPLACE REALITIES WILL DRIVE CORPORATE REAL ESTATE STRATEGIES

By Janet Pogue McLaurin

How many employees should we plan for? What is the new work experience that we need to create? How much and which space types will we need? And what are others doing that we can learn from? Those are the questions on the minds of most corporate real estate executives. With several false starts and stops prompted by various disruptions ranging from new coronavirus variants, to stuttered supply chains, to the uncertain future of Central Business Districts, we are all trying to learn from one another about what strategies, policies, and programs we're planning and what we're learning.

Gensler worked with CoreNet Global (CNG) over the last year to explore these new emerging workplace realities. We surveyed CRE end users in September 2021, live at the CNG Summit in November 2021, and again in February 2022. Coupled with what we're learning from Gensler's workplace research, this survey offers valuable insights in terms of the timing to return to the office, the long-term impact on






**What is the impact on corporate real estate footprints?**
The U.S. Bureau of Labor Statistics reports that since the start of the pandemic, only 5.5% of businesses have cut office space, while 3.6% have increased in size. Over 90% haven't adjusted their square footage at all, and 92.4% report that they plan to remain the same size by this time next year. But what about three years from now?

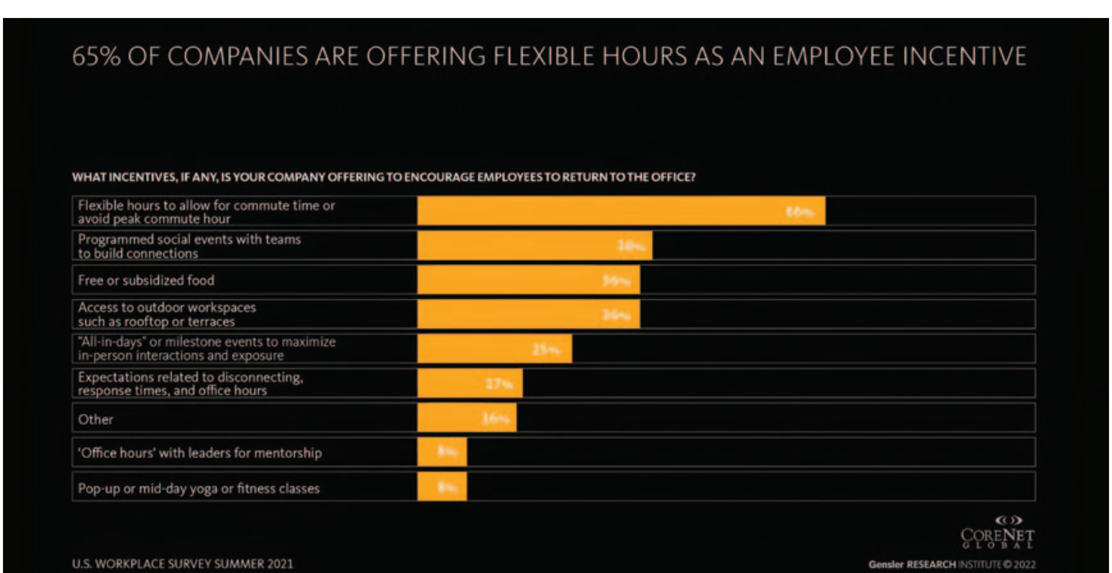
real estate footprints, employer policies, what matters to employees, and advice that CRE executives would give to others.

**What is the RTO timing?**
The timing to transition back to the office has shifted with every new variant. At first, CRE companies were planning for a return to coincide with a return to the school year, then it was January and the start of a new year. Many offices are opening up in earnest this spring and beginning to test new, flexible policies.

In Gensler's research, which had over 10,000 survey respondents, there was tremendous variation by industry. Some industries, such as Consumer Goods, Sciences, and Government & Defense, are either early to return or never had fully left the office due to specialized spaces, materials, and resources. Other industries, like Technology and Financial Services, transitioned easily to remote work and anticipate a higher percentage of staff to remain hybrid.

In the reality of returning to the office, we're continuously recalibrating expectations. As of February 2022, only 42% of CoreNet Global end users thought that at least 50% of their employees would work in the office at any one time by Q2 2022. Only 12% reported that at least half of their employees were already back. This is a more conservative return than we heard at the November Summit, which was 54% by Q2.

Last summer, Gensler surveyed managers, directors, and senior leaders across 10 industries and asked how the size of their real estate footprint will compare three years from now. In that survey, 44% of top-performing companies *(defined as companies who reported being recently ranked on the Best Places to Work, Most Admired, and Most Innovative company lists)* expected to need more real estate post-pandemic. In fact, top-performing companies were 1.5x more likely than average and 3x more likely to expect to increase their real estate footprints than unranked companies. Top-performing companies continued to onboard talent during the pandemic, and they now need a place for them to work when they return to the office. Others are now planning to build office space in new locations based on employee relocations. In either case, employers need more space.




When we polled CoreNet Global end users at the November 2021 Summit, 28% were planning to increase their real estate footprint, 23% thought it may stay about the same, and 48% were planning to reduce their footprint. In a Harvard Business Review survey published late

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## HOW EMERGING NEW WORKPLACE REALITIES WILL DRIVE CORPORATE REAL ESTATE STRATEGIES

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January 2022, HBR found that companies who are shifting to hybrid work predict only a 1.4% reduction for two key reasons: if employees are on-site three days a week it doesn't reduce office space, and employers are reshaping office to encourage face-to-face collaboration, creativity, and serendipitous interactions. This is consistent with the top purposes of the office reported by CoreNet Global end users.

**What RTO policies are others planning?**

Shifting expectations are influencing how employers approach RTO policies. In September, CoreNet Global end users reported that the main reasons driving their RTO policies were fairly equally divided between employee retention (30%), company culture (28%), and business performance (26%). By February, 72% of CRE executives now report that company culture is the main reason driving remote policies.

Nearly two thirds (65%) of CoreNet member organizations are offering flexible hours as an employee incentive to return to the office. These organizations also reported that by Feb. 2022, they had implemented a number of policy changes. A majority (81%) had already implemented a policy that provides individual choice and flexibility and another 14% were considering that policy. Meanwhile, 77% had already implemented providing team choice and flexibility with an additional 15% considering. Only 17% had already implemented a policy mandating specific days/times employees work in the office, but 26% were evaluating this policy. Just a quarter (25%) were considering "all-in-days" or milestone events to maximize in-person interactions and exposure.

As companies announce their new policies, there appears to be a growing preference for "core days" or "core hours" to provide flexibility and create opportunity to build the weak ties across organizations, mentor/coach younger staff, and reinforce corporate culture. Many top-performing companies have had tremendous staff growth over the last two years. Many of these new staff members have yet to come into the office to build relationships, connect with colleagues, and experience company culture.

**What advice do CRE executives give others?**

Cautious optimism is the industry's current stance, and on the ground, we know that this next year will be one of experimentation, piloting, and learning. There will not be one 'right' answer, policy, or approach. In fact, as leaders wrestle with the right strategy for their own enterprise, there may not be a single approach that is appropriate for all sites, geographies, and functions across their organization. We may well be transitioning from enterprise-wide 'universal planning' to a more tailored strategy that is focused on what's best for individuals and specific teams based on how they work best.

The human experiences missed over the last two years will bring people back to the office. A new workplace strategy is emerging that is not just focused on efficiency and space effectiveness, but one that prioritizes the whole work experience — both in and out of the office. CoreNet Global members shared their advice to other corporate real estate executives as we enter this experimentation phase. "Be flexible" topped the list, but so did "ask and listen," "be willing to adapt," and "remember this is a marathon, not a sprint."

Just like the variants, there may be more starts and stops in our future. This is a time not to go back to what was, or even fix what wasn't working pre-pandemic, but to envision a new workplace focused on people and compelling experiences where your employees want to be. ■


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