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INSIGHTS

Calgary Real Estate Forum 2022

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1. HOW WILL INFLATION AND RISING INTEREST RATES IMPACT THE CALGARY REAL ESTATE MARKET?

Growth has been strong in Calgary, but inflation and high costs of debt could stunt the market in 2023.

The City of Calgary's Spring 2022 "Calgary and Region Economic Outlook 2022-2027" paints a rosy picture for the city this year, predicting higher GDP growth for both the Province of Alberta and the Calgary Census Metropolitan Area (CMA). With Canada's overall GDP for 2022 forecast to be 3.8 percent, Alberta's was expected to be 5.7 percent and Calgary's 5.5 percent, "aided by elevated energy prices in 2022 and the larger presence of the resource sector," with employment growing above five-year pre-pandemic levels and the price of oil "expected to rise by as much as US$32 per barrel more in 2022."

By mid-September, however, oil prices in 2022 were mimicking Alberta's own longer-term boom-and-bust economic cycles, with a Wall Street Journal headline announcing "Oil Prices Slump as Recession Fears Grow" and a Reuters headline reading "Oil prices rise as supply uncertainty mounts." Both articles were published the same day.

Citing the ongoing conflict between Russia and Ukraine, the economic outlook also forecast added "upward pressure on energy commodities and food prices" which would "dampen global growth prospects."

Employment levels were predicted to grow 4.1 percent (36,000 persons above 2021 annual employment levels), with Calgary inflation remaining "elevated" and increasing from 2021's 3.2 percent to 5.6 percent in 2022, "as supply disruptions persist and some semblance of demand of the pre-pandemic era returns." Calgary's forecast document expresses confidence in the Bank of Canada's ability to combat inflation by increasing its base interest rate, and forecasts inflation will subside to 2.6 percent by 2023.

Population growth was pegged at 1.7 percent (22,000) in 2022 "as prospects for employment opportunities strengthen," and the forecast is for population growth to continue at that level every year between 2023 and 2027.

New housing starts were predicted to remain at 2021 levels in 2022 (12,700), then "normalize" at around 11,000 starts per year from 2023 to 2027. "Total building construction investments in the city are expected to be over $6 billion in 2022, on the back of expected higher population growth, sustained housing demand and expected stronger employment growth in 2022."

Risks to these numbers were identified as new COVID-19 variants, the ongoing war between Russia and Ukraine, and export disruptions caused by the war, including economic sanctions against Russia.

By May of 2022, The Conference Board of Canada's Senior Economist Robin Wiebe forecast Calgary's GDP growth would be 6.6 percent in 2022 and 4.7 percent in 2023.

Wiebe cites the spike in oil and gas prices as well as "continued recovery coming out of the pandemic and different industries simultaneously rebounding from being shut down." (Calgary Herald, "Calgary GDP forecast to grow by 6.6 per cent in 2022")

In H2 2022, Calgary was ranked first in 2022 growth of the 13 major Canadian cities (the prairie and Ontario capitals, Vancouver, Ottawa-Gatineau, and Montreal). Wiebe's predictions were based on growth from not just increased oil and gas activity and prices, but also in the arts and entertainment and hospital sectors. His prediction is for arts and entertainment growth in 2022 of 48.4 percent and accommodation and food services' increases of 23.7 percent, with "[f]inance, insurance, and real estate, Calgary's second-largest industry … with 2.5 per cent expected this year and a further 4.2 per cent in 2023." Retail growth was predicted to slow, with this sector already having bounced back in 2021 and the hardware sector due to slow down now that pandemic-induced major renovations are complete.

RBC's "Provincial Outlook – September 2022" cautions that "Canadian households have accumulated a lot of debt over the past decade. And they'll soon face significantly higher debt service payments. This is a bigger issue in British Columbia, Ontario and Alberta where household debt is highest relative to disposable income. This shift comes at a time when soaring inflation is already squeezing many households' budgets and the drop in residential property values is shrinking their net wealth. We expect the one-two-three punch of rising rates, high inflation and eroding wealth to take a serious toll on supercharged consumer spending. Indeed, a steep drop in consumer confidence across the country since spring is already pointing in this direction. … Prairie consumers' confidence, on the other hand, has held up comparatively better, possibly reflecting brighter income prospects arising from improved commodity markets."

RBC predicts the housing market will "subtract materially from growth in 2023 in every province," and notes that Alberta's household debt to disposable income ratio is the third highest in the country at 197, with only BC and Ontario's higher. But the bank's expectation of a recession in 2023 "encompasses a moderate rise in unemployment rates in all provinces except Alberta.".

2. HOW HAS THE ECONOMY IN ALBERTA OVERALL AND CALGARY SPECIFICALLY PERFORMED THROUGH THE PANDEMIC?

Optimistic outlooks for the agriculture and energy sectors signal recovery for the economy. Downtown Calgary is also beginning to reawaken.

RBC's September Provincial Economic Outlook notes that "The vigorous economic activity to date—which comes alongside decades-high inflation and vastly improved commodity market conditions—have led to a revenue windfall for provincial governments. Budget updates released in recent months invariably revealed massive upward revisions to all sorts of revenues, including personal and business income taxes, consumption taxes and non-renewable resource revenues.

Alberta, Saskatchewan and New Brunswick now expect surpluses in 2022-23." Alberta's economy is now "on track to (finally) recover from the 2015-16 recession. This is largely due to a much improved outlook for the energy and agricultural sectors. Our projected growth of 5.1% this year would mark the second-straight year the pace exceeds 5%. Soaring commodity prices and high inflation are further swelling the province's nominal GDP (forecast to top 20% this year), setting a very high base for Alberta government revenues. The result is stunning: the province is now expecting a record surplus ($13 billion). While we see its economic momentum slowing in 2023, Alberta will be in a good position to outpace most other provinces since activity and prices in the energy sector are poised to stay at favourable levels. And the completion of the Trans Mountain pipeline expansion by mid-year will boost Alberta's energy export capacity." RBC sees real GDP growth for Alberta of 5.1 percent in 2022 and 1.8 percent in 2023.

CIBC's September 7 "Economic Flash" points out that July's oil price sharp decline was accompanied by a decline of the Canadian goods trade surplus, which was $4.1 billion in August versus $4.9 billion in July 2022. "The further decline in oil prices seen since July should see the trade surplus continue to narrow ahead." There were also declines in consumer goods exports, especially in the pharmaceutical products sector. Energy product exports fell 4.2%," while "[e]xports of unwrought aluminium also fell following two strong months, with Statistics Canada noting that the decline coincided with an increase in output from China which boosted global supply. Partially offsetting these declines, exports of agricultural products and in particular wheat were up on the month due to strong global demand for Canadian product and improved growing conditions relative to a year ago."

Statistics Canada's report, "Differences in the economic impacts of COVID-19 across the provinces and territories" identified that "The economic impact of the pandemic in Alberta was more severe than in other provinces. [By] February 2021, the number of active businesses operating in the province remained just over 2% below pre-COVID levels, the largest gap in Western Canada. Following the first and second waves of restrictions, the employment recovery among youth and in accommodation and food services has been the slowest of the western provinces, as the third wave of restrictions took effect in April [2021]."

Alberta's resource-based economy during the pandemic was "sharply impacted by lower energy demand. Petroleum and coal product manufacturing sales in Alberta fell by almost two-thirds during the initial lockdowns, and, as of March 2021, remain[ed] about 14% below pre-COVID levels."

By late April 2022, however, downtown Calgary business owners were starting "to see a reawakening" after "suffering through a nightmarish two-year pandemic," according to data compiled by Avison Young. "Calgary has seen the second-strongest recovery of downtown weekday foot traffic from pre-pandemic levels among six Canadian cities – and it's ranked fifth among 23 centres in North America." (National Post, "Calgary's downtown slowly reawakens after a two-year pandemic slumber")

The Avison Young data was based on aggregated cellphone location data geofenced to downtown areas. In April 2022, foot traffic was down 62 percent throughout Canadian and U.S. cities, although Calgary's drop-off was only 49 percent. With Alberta provincial work from home orders lifted in March 2022, retailers and restaurant and bar owners began to see sales begin to climb, and "[t]he number of vehicles parking in city-owned lots [rose] 96 per cent during the first three months of 2022 from a year earlier." Calgary Transit also reported ridership levels had increased to 54 percent of pre-pandemic levels by the last week in April, and were projected to reach 65 percent by September.

Calgary Herald columnist Chris Varcoe wrote, "It will take a while for a recovery to take root. It will be uneven. But for the first time in a couple of years, Calgary's downtown is seeing early signs of a much-needed revival."

3. THE STRENGTH OF CALGARY'S DIVERSE ECONOMY NEEDS TO BE HIGHLIGHTED: WHAT ARE THE KEY ECONOMIC DRIVERS?

According to Economic Development Calgary, there are nine major key economic drivers in the city, which in turn propel much of the Alberta economy. These include:

Aerospace & Logistics: The Calgary airport is one of Canada's busiest, and WestJet, which has become a major Canadian airline, is headquartered in Calgary. Commercial aerospace technologies such as drones also have a significant presence in the city. One, Aerium Analytics, supplies Unmanned Aerial Vehicle (UAV) flight and analytics designed to help with airport wildlife management, building inspections, and forestry management.

Agribusiness: Agribusiness, in the forefront of adopting digital technologies for precision agronomy, farm management, and crop marketing, is one of the city's largest business sectors.

Creative Industries: With a film centre that comprises 50,000 sf of studios and 25,000 sf of warehouses and workshops only 25 minutes from the Calgary Airport, Calgary has, since the film centre's opening in 2016, become a major film and TV production centre. In June, the producers of Fargo announced a return to Calgary to film the series' fifth season (the first, second, and third seasons were also shot in Calgary, but the fourth moved to Chicago), while HBO just wrapped of The Last of Us. The US$65 million Prey, the prequel to the Predator series, had its production office in Calgary and filming took place on the Stoney Nakoda Nation, just west of Calgary. In March of 2021, the Alberta government removed its $10-million-per-project cap on the film and television tax credit it launched at the beginning of 2020 and $70 million of provincial funding has been budgeted for 2022-23, $225 million through 2024-25. The province hopes to grow "the Alberta film sector by $1.5 billion over the next 10 years." Other film and TV productions filmed in Alberta include Inception, Interstellar, Ghostbusters and Heartland, now in its16th season and "the fifth most-streamed project on Netflix in 2021."

Energy: While the words "energy sector" and Calgary make most think of the oil and gas industries (of which Alberta is still the largest Canadian producer), more than 70% of Alberta's CleanTech (solar, wind, bioenergy, and geothermal) are headquartered in Calgary.

Financial Services: With more than 40 Fintech companies, Calgary is rapidly developing technology to automate both the use and delivery of financial services, including blockchain, AI, cryptocurrencies, biometric banking, insurtech, paytech, personal finance, capital markets and investments software.

Interactive Digital Media: Calgary boasts more than 60 video game/immersive media firms, and has, with its Calgary Game Developer's Association, created a talent pool of more than 800 members.

Life Sciences: Over 110 life science centres are operating in Calgary and one biotech firm, Oncolytics Biotech, is working to develop an immuno-oncolytic virus to kill cancer. In addition the scheduled 2023 opening of the Calgary Cancer Centre, means that the city has become not only a leader in biotech but is positioned to provide an increased role in cancer services.

Technology: Economic Development Calgary pointed out that the city's businesses were spending big on digital transformation as early as 2019, with $7.5 billion in spending between 2019 and 2020 alone. The application of new technologies to change work processes, customer experiences, and enhance value uses new technologies to gain advantages through innovation and disruption.

Transportation and Logistics: In 2021, Calgary's International Airport fielded 6.3 million passengers, an increase of 11.5% YoY, despite the pandemic. WestJet's success and continued growth means the airport now serves an increasing number of both U.S. and European destinations, including Denver, San Diego, Amsterdam, and Rome, as well as several Hawaiian cities on a seasonal basis. Only Vancouver and Toronto's airports deal with a higher volume of passengers. With its rail and ground access, including major north/south and east/west highways, Calgary has become Western Canada's "inland port."

4. OFFICE TO RESIDENTIAL CONVERSIONS ARE RAMPING UP: HOW WILL THIS AFFECT DOWNTOWN OFFICE VACANCY?

In 2021, the City of Calgary announced it would contribute $100 million to office-to-residential conversions as part of its Downtown Calgary Development Incentive Program. The first three projects were announced at the end of April 2022: Palliser One at 126 9th Ave. SE (Aspen Properties); 205 9th Ave. SE (Cidex Group of Companies); and 909 5th Ave. SW (Peoplefirst Developments).

Palliser One will convert 200,000 sf of office space into 176 apartments and is scheduled for completion in 2024, while the other 9th Ave. conversion, known as the HAT @ Arts Commons project, will mean 113 new housing units. The building at 909 5th Ave. SW Peoplefirst is converting has been vacant for nearly 10 years, and its conversion will include 112 apartments and retail space.

Together these three projects will remove 3 percent of downtown Calgary's total office vacancies. Mayor Jyoti Gondek told the Calgary Herald in June 2022 that the city wants to remove 6 million sf of downtown office space, either through conversion or demolition "in a bid to stabilize a commercial real estate market that's been reeling for years," with downtown office vacancy rates of 29.7 percent in Q4 2021. (Calgary Herald, "Three downtown Calgary office buildings converting to residential")

Eight other applications for funding to convert office to residential have been received, and two additional projects were announced in July 2022, United Place at 808 4th Ave. SW (United Canadian Investment Inc.) and Canadian Centre at 833 4th Ave. SW (PBA Group of Companies), both on the same block in the west end of Calgary's downtown core. The developers will receive $18.4 million from the city's $100-million fund, and these conversions will lead to the removal of just over a quarter of a million sf of office and the addition of 306 housing units. Construction on both projects is scheduled to begin in 2023 and be completed the following year.

United Place will include 81 new homes, including studio, one, two, and three-bedroom units, as well as a cafe with an outdoor plaza, an interior community space, rooftop patio, fitness room, in-house daycare, and a parkade with EV charging stations for both bikes and cars.

The Canadian Centre project will convert 163,000 sf of office space to residential, both furnished apartments and short-term rentals for a total of 225 new housing units. A main floor cafe, patio, bicycle parking and repair facilities, outdoor gathering spaces, and a second-floor restaurant are also planned. The fully furnished units will include flexible rental terms and are designed for new entrants to the Calgary housing market. PBA's VP of Corporate Development James Scott was quoted in the city's media release as saying, "provision of flexible housing options to service workforces in the technology, health care, post-secondary education and energy sectors are needed." (City of Calgary, "City announces two more downtown office-to-residential conversion projects approved for funding")

The five approved projects will remove 665,000 sf office space from the market and increase the rental housing supply by 707 units. There are three other projects awaiting final approval, with the first five using up 73 percent of the $100-million fund. Terms of the grants are the provision of $7t psf for office to residential conversions, based on the original gross building area of existing office space to be converted, with a maximum of $10 million per property approved by city administration, while amounts over $10 million also require the approval of city council.

Phase 2 of the Downtown Calgary Development Incentive Program expands the program to cover office conversions to other kinds of spaces, including hotels, institutions, labs, cultural spaces, and neighbourhood amenities. Expressions of interest for the expanded program was announced in July 2022, "to get a sense from building owners and developers o[f] what other types of projects are currently being considered so that Phase 2 of the Program can best enable redevelopment to occur," according to the City of Calgary.

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5. THE NEED TO UNDERSTAND ESG INVESTING IS BECOMING INCREASINGLY IMPORTANT

Companies focus on mitigating climate risks and carbon emissions.

As natural disasters become increasingly frequent due to climate change and a "growing consensus sees the property sector as bearing much of the responsibility for climate change" as well being in the best position to "mitigate impacts and increase resilience to environmental risks," the importance of understanding ESG investing is also increasing.

Heat domes, wildfires, drought, atmospheric rivers, derechos, tornadoes, and floods are becoming increasingly common in all parts of the world. According to PwC's "Emerging Trends in Real Estate 2022," "the annual number of natural disasters more than doubled from 1980 to 2016 and has only increased since then." Buildings account for more than 40% of both global energy use and carbon emissions, with two thirds of its environmental impact stemming from building operations and the other third from building materials and the construction process. "Both factors need improvement," according to PwC's report.

Larger real estate firms are beginning to benchmark their environmental performance against either GRESB and/or the United Nations Sustainable Development Goals standards. "Major credit ratings agencies—including S&P, Moody's Fitch Group, and DBRS Morningstar—have begun formally incorporating ESG factors into their credit ratings, both by integrating risk factors into their overall rating and creating separate ESG scores."

Newer properties are seen as mitigating risk in all asset classes "until owners can better understand the cost to retrofit properties to meet changing ... regulations." (PwC, "Emerging Trends in Real Estate 2022")

In January 2022, CBRE's "ESG and Real Estate: The Top 10 Things Investors Need to Know/A Turning Point for ESG," stated that "With ESG now playing a much more prominent role in how companies operate, investors are embedding ESG considerations into every stage of the property lifecycle, from due diligence to acquisitions and from leasing to asset management."

While green construction materials, particularly timber with its carbon-sequestration capacity, mean increased upfront materials costs of five to 10 percent, net construction costs are ultimately equal since reduced construction time is possible through pre-fabrication.

After an airborne pandemic that has lasted more than two years, health and wellness considerations throughout all asset classes have become increasingly important to both investors and tenants. CBRE notes that "properties with sustainability and wellness features, particularly those related to indoor air quality, ventilation systems and other indoor environmental features to improve employee comfort, will attract stronger demand in the long term. ..."

6. HOW DOES A PROVINCE WITH ENERGY RESOURCES EVOLVE WITH GREEN INITIATIVES?

As demand for oil changes, companies and governments may have to pivot to remain successful.

While the Alberta Government committed itself to environmentally friendly design and construction in 2006, adopting a minimum Silver LEED rating as its standard for major construction projects, oil and gas still accounts for nearly 17% of the province's GDP.

The 2022 rise in crude oil to highs above $90 a barrel, a "windfall" of oil royalties some analysts estimate at C$10.8 billion will most likely "allow Alberta to balance its books and return to a surplus in the 2022-23 fiscal year," according to Reuters.

Ultimately not even financial recovery was enough to ensure Premier Jason Kenney's political survival, however. The United Conservative Party continued edging to the right could mean Rachel Notley's NDP government re-elected in May 2023. A March 2022 poll showed "the New Democratic Party led by former premier Rachel Notley now has a significant advantage in Calgary as well as in Edmonton and is closing on the governing UCP even in its rural strongholds."

The new leader of the UCP, according to Politico, would be better served trying to reunite a party described as "fractured," since "The more time they have to reunite a fractured party, the better chance they have at trouncing New Democrats (NDP) who have been leading in the polls for months." But Notley's "support of both the Keystone XL and Trans Mountain pipeline bucks the archetype of an NDP leader and distinguishes the provincial party from its federal cousin."

EY's May 2022 report, "Six ways that governments can drive the green transition" identifies the steps government must take ensure a greener future. These include: providing action plans that are both detailed and clearly specify accountability, develop bolder incentives and mandates for change, increase funding that boosts innovation, design and deliver green initiatives better, lead by acting as a role model, and adopt a people-centered, "whole of society" approach.

In the lead-up to COP26, the Canadian Climate Institute posed the question, "What does a decarbonizing world look like?" Its answer: "Over the next few decades, global fossil fuel consumption will decrease as cleaner energy sources become more and more economical. With a shrinking world oil market, Alberta's relatively high-cost oil will find it tougher to compete with lower-cost oil from other countries. ... as [green] technologies get even cheaper ... customers will increasingly prefer electric vehicles to internal combustion engines, hydrogen to diesel, electric arc furnaces to metallurgical coal. The upshot is that the future will likely see less demand for Albertan oil and gas." Governments, therefore, "should focus on how they can help companies reposition themselves for success and incubate new companies in areas where global demand will grow."

Whether either of Alberta's political leaders is ready to lead the transition from a fossil fuel economy remains to be seen.

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7. LABOUR SHORTAGES, CONSTRUCTION COSTS AND MUNICIPAL APPROVAL PROCESS PROVE CHALLENGING

Interest rates, continuing supply chain issues, and increased costs for both materials and labour meant the price of a new single-family home has increased 18 percent since Q4 2021.

While the Canadian Homebuilders Association Housing Market Index (HMI) focuses on residential rather than commercial real estate construction, the findings in its Q2 2022 report identify challenges all builders and developers face. The HMI declined 24 points year over over and a whopping 29 points since Q1 2022.

Interest rates, continuing supply chain issues, and increased costs for both materials and labour meant the price of a new single-family home has increased 18 percent since Q4 2021. Labour costs have increased 25 percent in 2022; supply chain delays are adding 10 weeks to construction times, and confidence amongst multi-family builders has declined sharply just since the end of Q1 2022. The HMI survey indicated that a quarter of multi-family builders expect prospective homebuyer traffic to be low or very low, an increase of 22 percent since Q1 2022, and, while 47 percent rated current conditions as good, 43 percent rated them as only fair.

This sentiment reflects “evidence of a softer multi-family market in part due to continuing strong demand for more floorspace offered by single-family detached homes that emerged during the pandemic.” (Calgary Herald, “Supply chain, labour shortages pushing up prices of new homes”)

Weak international migration due to the pandemic and net migration from Alberta in 2021 has exacerbated the labour shortage, and in response, the April 2022 Alberta budget set aside $600 million to retrain and revamp the workforce via its Alberta at Work program, with an emphasis on increasing post-secondary enrollment “with the aim to create 7,000 new spots in post-secondary programs relating to finance, health care, civil and computer engineering, apprenticeship and education. … ‘The skilled trades are part of our province’s great history, and the apprenticeship education model has as much value as other forms of post-secondary education,’” Demetrios Nicolaides, Alberta’s minister of advanced education, told CBC News. Alberta’s apprenticeship program will receive part of the budgetary allocation. (CBC News, “Alberta government announces details of new employment program”)

While a pre-pandemic Municipal Benchmarking Study conducted by Altus Group for the CHBA ranked Calgary third among the 23 municipalities surveyed that examined planning features, approvals, and timelines of the development and building process, it still saw room for improvement. Planning features include the ability to appeal, timeline and appeal rights procedures, submission reviews, the ability to apply digitally, and an online zoning portal. Approvals timelines for development applications were calculated from complete application to planning approval, while municipal charges examined charges levied by municipal governments

In Calgary, the typical approvals timeline is 12 months, while government fees amounted to an average of $37, 286 per unit for low rises and $10,289 per unit for high rises. Monthly indirect costs, the cost per month to the developer while projects wend their way through the approvals process, were calculated at $1,480 per unit for high rises. The study cited room for improvement in two particular areas. Calgary’s planning approach “could be improved by having more detailed terms of reference outlining requirements for studies” and the ability to apply for land-use redesignation online rather than continuing to require physical submissions. (CHBA)

8. THE IMPORTANCE OF THE CITY OF CALGARY’S INITIATIVES TO PROMOTE INVESTMENT IN THE CITY

The Opportunity Calgary Investment Fund and the Downtown Calgary Development Incentive Program are creating jobs, encouraging innovation, and revitalizing the city.

In 2018, the City of Calgary launched a $100-million Opportunity Calgary Investment Fund, offering grants for local innovations that align with its Calgary in the New Economy strategy. Since then, the fund has allocated $68.5 million to 23 projects.

Recent fund investments (July 2022) include $500,000 to Avatar Innovations for its Avatar Accelerator Innovation Studio, contingent on Avatar creating at least 12 Calgary start-ups over the course of the next three years. Avatar is a partner with Innovate Alberta and the University of Calgary in the Energy Transition Centre.

Also announced in July 2022 was a grant of up to $3 million to LodgeLink to support the creation of 300 technical roles and an equal number of commercial and administrative positions over five years. LodgeLink has created a digital B2B workforce travel platform for the North American crew-travel logistics sector that provides businesses with digital workforce travel management tools that save time and money. The company is now providing solutions for wind farm and railroad maintenance, transport and mining companies.

The fund is also providing $5 million to IBM's Western Canada Client Innovation Centre (CIC) headquartered in Calgary and focused on sustainability. The funding will be earned over the course of five years if IBM achieves milestones including creating a minimum of 250 highly skilled jobs in Calgary. The innovation centre, to be located in downtown's Beltline area, will serve as a collaboration hub offering consulting services and technologies to drive digital transformation, including 5G, AI, cloud, and blockchain, while also helping organizations achieve ESG goals in the areas of climate risk management, infrastructure and operations, supply chain, electrification, energy and emissions management, and sustainability strategies. The CIC will include an IBM Sustainability Centre, scheduled to be operational by 2024, which will focus on helping organizations achieve net zero and further energy transitions.

As part of its own ESG commitments "IBM intends to build a diverse talent base with inclusivity initiatives that put a priority on career opportunities for equity-deserving groups. Its outreach will include recent university grads as well as workers transitioning to tech through upskilling programs. IBM will also recruit in-demand tech talent from outside Calgary." (Calgary Economic Development, "OCIF Supports New IBM Western Canada Client Innovation Centre In Calgary")

In addition to creating the Downtown Calgary Development Incentive Program (see Section 4) and launching its Greater Downtown Calgary plan in 2021, the city created the Stephen Avenue Safety Hub in September 2021, a collaborative hub in a centralized location to provide increased security for people and businesses in the downtown core by increasing the visibility of police, bylaw, and transit officers.

Other City of Calgary projects include:

• "The future of Stephen Avenue," designed to reinvigorate the area that provides dining, shopping, and cultural amenities to downtown office workers, residents, local visitors and tourists and provide green street links from downtown to the Bow riverfront.

• "Tomorrow's Chinatown," to replace the 30-year-old Chinatown Area Redevelopment Plan and get it right this time by acknowledging cultural and community character. This time, the plan is being created in co-operation with the Chinatown community.

• Eau Claire Area Improvements to create a flood barrier that extends from the Peace to Reconciliation bridges and will lower the risk of flooding in the downtown, Chinatown, East Village and Eau Claire communities after 2013's disastrous Bow and Elbow river flooding. It will also create a flood-protected riverfront promenade and cycle network to connect downtown with the Bow River, and redesign the Eau Claire Plaza to allow year-round use, improve accessibility, and create spaces not just for everyday community use but also for larger events and festivals.

9. RETAIL IS NOT DEAD – BRICKS AND MORTAR DID NOT COLLAPSE

Calgary's retail market foot traffic is recovering faster than any other major city in Canada.

With the easing of pandemic restrictions and the beginning of return to work, even on a hybrid basis, JLL's Spring 2022 Retail Outlook concluded, "local retailers remain optimistic about increased future sales fueled by pent-up demand."

While retail demand is still higher in the suburbs than in the downtown core, rents are up 15 percent in Q1 2022 over Q1 2020, and despite new supply, net positive absorption has been strong and much of the new inventory is pre-leased. "Tenants are searching through existing inventory and future development opportunities to expand their businesses, particularly in the suburbs. With a tighter market, rental rates are expected to continue their upward trajectory in the short term." (JLL)

While vacancy rates in the downtown core remained high, ranging from 5.8 percent in the Beltline to 11.5 percent in East Village, there are unmistakable signs of recovery along both the 17th Ave. and 4th St. retail corridors, and Calgary foot traffic is making a faster comeback than many other major Canadian cities, notably Ottawa, Montreal, and Toronto. Suburban retail vacancy rates were just under 4 percent in Q1 2022.

"We've seen a spending shift from categories such as home furnishing and home improvement to travel and entertainment. As festivals, conferences, and cultural events resume, tourism spending should also return and contribute to Calgary's retail sales." Attendance at the first full-scale Calgary Stampede since the pandemic began saw attendance figures in 2022 reach 2019 levels, with hotels recording 90 percent occupancy rates and 30 percent of attendees visiting from out of town. (CBC, "'Back in the saddle': 2022 Calgary Stampede winds down with near pre-pandemic numbers")

New retail inventory scheduled for completion in 2022 includes South Oxford Properties' Southcentre Mall (235,000 sf), Canderel's Taza (The Shops at Buffalo Run) in southwest Calgary (400,000 sf), and the northwest's Bow River Shopping Centre, developed by One Properties (158,300 sf).

Re/Max's "Commercial Real Estate Calgary (2022 Report)" records retail strength outside the downtown core and a total investment volume of $144 million. "Strip malls have been exceptionally popular with private investors from out-of-province, as illustrated by the recent sale of the London Town Square for $36 million. Good quality retail space has seen some competition, especially for smaller units in prime locations." Altus Group also records a total investment volume of $144 million in the retail sector in Q1 2022 and YTD Q2 2022 totals reaching over $354 million, a 32% increase as compared to the same time period last year.

10. INDUSTRIAL CONTINUES TO BE A STRONG ASSET CLASS AS DEMAND FROM BC AND ON HEADS TO ALBERTA

The city's vacancy rate and location make it "an attractive alternative" to major markets like Toronto and Vancouver.

In late August 2022, the Calgary Herald described the city's industrial real estate market as "blossoming." During the first half of 2022, new industrial transactions totaled 5.2 million sf, an increase of 13.7 percent year over year. "While large-bay leasing was constrained by severely limited supply, demand in the mid-sized sector had surged. Transactions 10,000 to 70,00 square feet (sf) totaled 1.6 msf in the first half of 2022, up over 100% year-over-year." (Cushman & Wakefield, "Marketbeat/Calgary, AB Industrial Q2 2022")

According to Altus Group, over 870,000 sf of new supply from four new construction projects was delivered in the first half of 2022.Of the new supply completed on a speculative basis, a large chunk percent was leased on delivery. This includes Highfield Investment Group's 430,000 sf and Building 8 at High Plains Industrial Park (186,314 sf) in the northeast, Conestoga Franchise Services' South Calgary Distribution Centre (Building 2, 300,875 sf) in the southeast, and Gregg Distributors' 10660 6th St. SE, 132,827 sf. Major tenants for the new Highfield supply are Walmart Canada and Estruxture, while Conestoga has leased to Purolator and Gregg Distributors is its own major tenant.

With 12 new industrial builds started in Q2 2022, there is now 6.3 million industrial sf under construction. The vacancy rate declined 90 bps in the second quarter of the year to 2.0 percent. This is not only 180 bps lower year over year, it's also the lowest vacancy rate Calgary has seen for industrial since 2010 (Altus Group)

Re/Max Commercial's Associate Broker Ilya Raykhlin told the Calgary Herald both the city's vacancy rate and location make it "an attractive alternative" to major markets like Toronto and Vancouver. "Unlike other areas of the country, Calgary is not constrained by things like mountains or the ocean and we offer level topography with development-friendly soil conditions, so we're just a natural location to develop these large footprint facilities," said Raykhlin.

And CBRE's Canadian Prairies' Regional Managing Director Greg Kwong "said all the major retail companies operating in e-commerce, such as Amazon and Canadian Tire, are either distributing through Calgary or are planning to be here. 'Virtually every major retailer that has an e-commerce base component to their business is here or looking to be here… Most of them are located along the highway, Deerfoot Trail corridor, and you can see all the signs as you drive through and around those neighbourhoods.' (Calgary Herald, "'Record high activity': Calgary's industrial real estate market blossoming in 2022")

Altus Group recorded industrial availability rates at 2.05 nationally as of Q2 2022, a 0.4% decline recorded from the same time period a year prior. Cushman & Wakefield's 12-month industrial forecast sees the vacancy rate continuing to decline, net absorption continuing to rise, and asking rents maintaining their upward trajectory.