Top 10 Real INSIGHTS

Edmonton Real Estate Forum 2022

ISSUE 77

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

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

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Special feature presented by ATB

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?

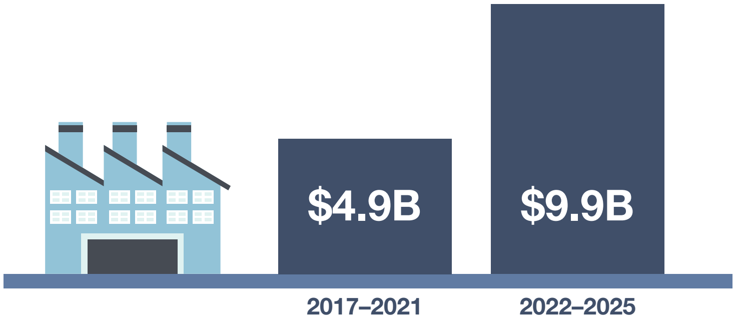
By June of 2021, RBC's Senior Economist Robert Hogue stated that Alberta's economy had a lot of lost ground to recover. The COVID-19 pandemic and the plunge in oil prices combined to cause an -8.2% contraction in the economy in 2020 (real GDP), an unemployment rate of 11.4%, a decrease in retail sales by 2.7% and housing starts to decrease to 24,000 from 2019's peak of 27,300.

"Economic momentum was clearly building," however, as "[a] ctivity in the manufacturing and wholesale trade industries was up sequentially in the first quarter of [2021]. Consumers were spending more (albeit differently) at retailers, including online. Strong global demand and prices for agricultural commodities and wood products propelled Alberta's agri-food sector and lumber industry. The housing market got super-hot, igniting residential construction. And rebounding energy prices boosted the cash of oil and gas producers." (RBC Economics Provincial Outlook, June 2021 "Alberta – Accelerating momentum")

By March 2022, however, RBC was projecting all provincial economies would continue to grow in 2022, with "Alberta and Saskatchewan accelerating thanks to an upswing in the energy sector and rebound in agriculture." (RBC Economics Provincial Outlook, March 10,2022 "Provincial economies begin a new chapter as pandemic threat fades"). Alberta, with projected real GDP growth of 5.8% in 2022, topped the bank's growth rankings: "We believe Alberta's economy—heavily weighted in the energy sector—stands to benefit from higher energy prices and have boosted our real GDP growth forecast ... by 1.1 percentage points." RBC projects a 3.8% increase in GDP for 2023. However, these numbers "in part reflect the more significant ground to recover from the initial pandemic/oil price collapse double whammy."

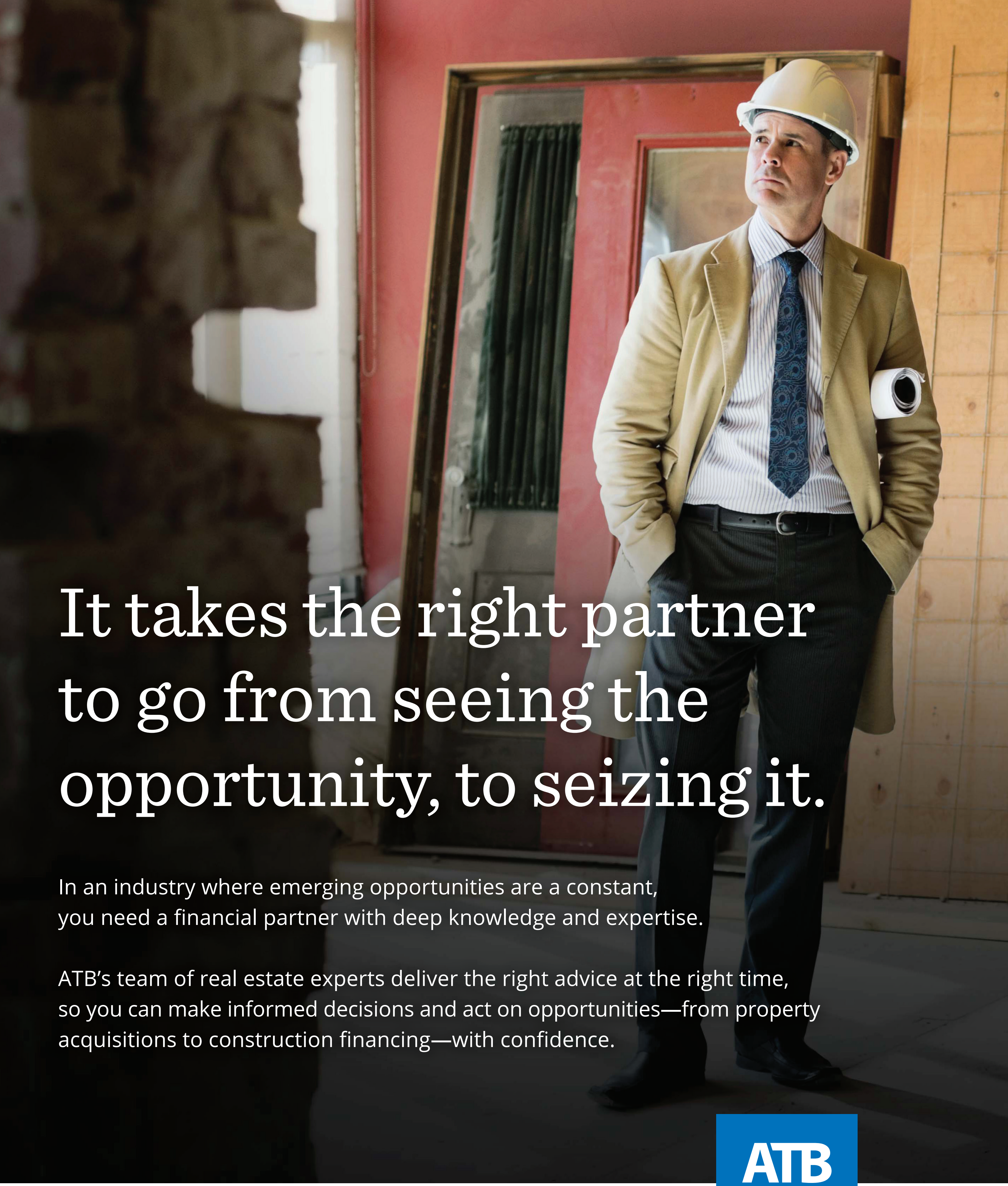
The Fraser Institute predicts Alberta's **resource revenue from 2021/2022 to 2024/25 will "average $9.9 billion annually, roughly twice its annual average ($4.9 billion) from 2017/18 to 2020/21."** However, to permanently alter Alberta's boom/bust cyclic economy, it calls for a fundamental change in the way the province deals with energy revenues. This would include reviving the Alberta Sustainability Fund to set stable amounts of resource revenue that can be spent annually, providing a surplus that can be drawn upon during "bust" cycle years, and resuming contributions to the Heritage Fund—created in 1976/77, but which has not had any resource revenue contributions since 1986/87—as well as reducing program spending by 8.4% annually beginning this year and for the next three years to achieve a balanced budget by 2024/2025. (Fraser Institute, "A New Fiscal Framework for Alberta")

Alberta's Resource Revenue



"Most troubling for Alberta is the return, with a vengeance, of mandatory country of origin labelling. The last time the Americans imposed COOL requirements, in 2008/09, the Canadian cattle industry estimated losses at $1 billion a year with a similar amount for hog producers plus millions more spent on legal challenges and lobbying to fight the requirements. The U.S. lost a World Trade Organization (WTO) challenge to the labelling regulations and lost again on appeal with Canada winning the right to impose up to $3 billion in retaliatory tariffs. Despite all of this, the U.S. Senate tabled a bill in 2021 to resurrect country of origin labelling with or, reading between the lines, without it being WTO compliant. Resurrecting COOL poses immediate and longer-term harms for Alberta's livestock industry. Its persistence raises doubt for potential investors in Alberta's meat processing industry about the viability of continued access to the U.S. market. Without this guarantee of access, an investment in meat processing in Alberta serves 38 million consumers in the Canadian market as opposed to the 330 million-strong U.S. market. Beyond the livestock industry and even more concerning is what the persistence of COOL signals about the deterioration of the overall political-trade relationship and the continued erosion of the rule of law as a protection for Canadian exporters to the U.S." (Canada West Foundation, "Alberta's Place in the World: The Changing Context of International Trade," February 2022)

Written by Ruth Seeley of No Spin PR



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Built to help Albertans

The creation of Innovate Edmonton in 2020 sought to position Edmonton, which had North America's fastest growing tech sector in July 2021 (CBRE), as one of Canada's tech capitals. Its tech industry labour force grew more than 50% since 2015 and added 12,000 jobs. CBRE Edmonton Managing Director Dave Young told the *Edmonton Journal* when CBRE released its "Scoring Tech Talent" report that the combination of a young and educated labour force, as well as relatively inexpensive office and residential real estate made Edmonton ideal to grow tech companies. Total estimated gross rent is for office space in Edmonton was $29.70/ square foot in Q1 2022, while the average among the major markets across Canada was $32.38/square foot, according to Altus Group data Invest Alberta announced in February 2022 that "Red tape reduction, regulatory reform, a highly skilled workforce and competitive tax rates contributed to Invest Alberta signing 27 agreements with investors and a total of $19 billion in announced investments that will create over 5,000 jobs across the province." Among those deals was Air Products' decision to build the world's largest net-zero hydrogen energy complex in Edmonton. The $1.3 billion net-zero hydrogen production and liquefaction facility should be operational by 2024 and will capture 95% of carbon dioxide (CO_2) from feedstock natural gas and store it underground. This will make Alberta western Canada and the Pacific Northwest's leading supplier of liquid hydrogen. (Invest Alberta, "Budget 2022 sets the stage for Invest Alberta to build on momentum of record-breaking investment")

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.

While 100% of Canada's top oil and gas producers are now producing Environmental, Social and Governance (ESG) reports, including multi-nationals operating in Canada, only 30% of small producers include ESG initiatives and achievements when reporting results. More than three quarters (76%) of electric utilities with 100,000+ customers reported on ESG, while the figures were much, much lower for both alternative energy producers (solar and wind, 33%) and pipeline operators (39%) However, as the Canada West Foundation pointed out in its August 2021 report, "ESG and the Canadian Energy Sector," approaches to reporting on ESG topics vary greatly. "Many topics that are key elements of a company's sustainability performance (and are included in every major ESG framework) are not consistently reported on by any Canadian energy sub-sector—including GHG emissions, land use, biodiversity, water use, waste, gender equity, diversity and inclusion and supply chain management. Although Canada's energy sector is increasingly taking up ESG reporting, confusion clearly remains about how best to approach it."

Part of the confusion results from lack of information and direct evidence that ESG reporting does what it claims it can do, namely:

- drive financial investment (sometimes true, but often financial considerations are the primary factor in investment, although companies with strong ESG performance will see more funding from sustainability-driven sources, thus lowering the cost of borrowing)
- create value within corporations (operational benefits include attracting and retaining top talent and increasing both motivation and productivity while enhancing the company's brand and reputation),
- provide a necessary response to regulatory pressures (since 2019 the Canadian Business Corporation Act requires that corporations disclose board and C-suite diversity information in addition to measures of employee, retiree, and pensioner well-being), and
- be a meaningful influence on environmental and social outcomes ("expectations of how much social and environmental good can be achieved through ESG reporting should be tempered," Canada West states, due to varying interpretations of what ESG actually is and how to implement it most effectively in various economic sectors).

Among Alberta's largest oil and gas producers, "ESG performance is strongly tied to reputational risk." Oil and gas industry organizations such as IPIECA, an association for advancing environmental and social performance, publish sector-specific guidance on sustainability reporting. And of course, the large scale of the largest producers' projects trigger impact assessments to measure social and environmental impacts, leading to requirements for the collection and reporting of data.

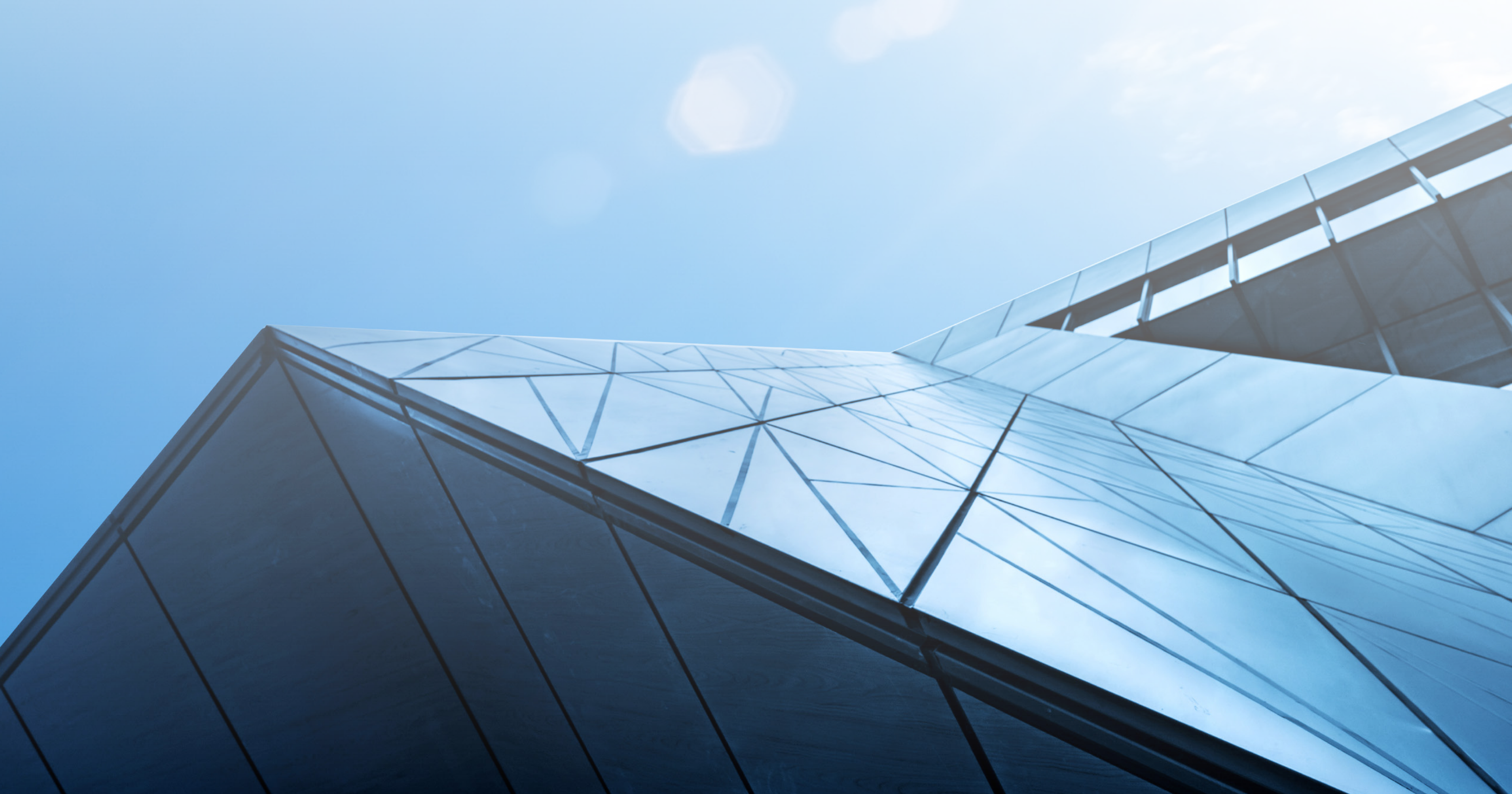
Smaller oil and gas producers tend to be privately owned and financed, and while some produce ESG reports, these are often only made available to investors and employees.

Wind and solar producers also tend to be smaller and more of them are privately owned. There is also little or no guidance from industry organizations. CanREA, for instance, has "no requirements for members to report on ESG, nor any frameworks or guidance provided." And while wind and solar energy companies may believe they don't need to report on environmental issues as clean energy producers, the social and governance elements are receiving little attention. "A sustainability reporting strategy that rests on simply being a renewable energy producer is unlikely to be sufficient in the future."

Among electric utilities, all publicly and provincially owned utilities produced ESG reports, while only half of municipally owned utilities did so.

While size of the pipeline company did not influence ESG reporting, whether the company was publicly traded or privately held was the single biggest factor in who reported. According to Canada West, 89% of "publicly traded companies produced an ESG report, whereas only one of 14 privately held companies (7%) did so."

Written by Ruth Seeley of No Spin PR

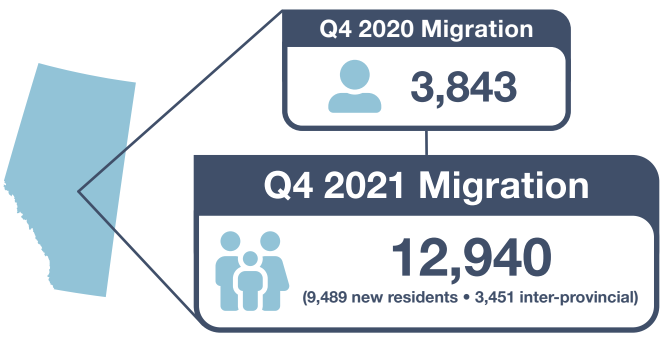


3. LABOUR SHORTAGES, CONSTRUCTION COSTS AND MUNICIPAL APPROVAL PROCESS PROVE CHALLENGING FOR DEVELOPMENT

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.

Alberta's "Occupational Market Outlook," updated in February 2022, anticipates that between 2021 and 2030, "[t]he number of anticipated job openings is expected to exceed the number of new job seekers, resulting in the provincial labour market seeing some shortages reaching around 33,100 in 2025. For the most part, the shortages will be driven by the need to replace workers who are due to retire. In 2025, 31 per cent or 32,000 of total job openings will come from expansion demand and 69 per cent or 71,900 will come from replacement demand." Labour shortages in the construction trades and engineering occupations related to construction, which the province forecasts will have above average growth, are anticipated for the next 10 years.

By the fourth quarter of 2021, Alberta had reversed its negative migration trend, with 12,940 people moving to the province in Q4 2021 vs 3,843 in Q4 2020. Inter-provincial migration accounted for 3,451 of this number, while international migration was responsible for the remaining 9,489 new residents. This represents a 236.7% increase year over year.



By September 2021, Alberta's unemployment rate had sunk to pre-pandemic levels of 7.6%, but according to Skilled Worker, "the tightening of the job market also means many employers are struggling to find workers to fill jobs. Labour shortages are growing more severe in Alberta and employers are increasingly turning to immigrants to fill those positions." Carpenters are one of the top 10 most in-demand workers. TD Economics' mid-March "Provincial Economic Forecast: Varying Regional Impacts From Russia/ Ukraine Conflict" noted that, "Activity in Alberta's housing market continues at a heated clip. Even after home sales advanced 50% on an annual average basis (over twice the increase as Canada overall) last year, they're up an additional 25% over the first two months of 2022. This robust demand backdrop (supported by good affordability conditions) should fuel an outperformance in home prices, particularly in the second half of the year."

According to Altus Group's statistics from its 2020 "Canadian Cost Guide," Edmonton construction costs were the second highest in the country for stock single-family home construction, ranging from $130 to $185 per square foot, while the price for custom builds ranged from $405 to $860 per square foot. While on par with Calgary construction costs, only Vancouver's costs were higher. Increases in materials costs due to supply chain interruptions became significant during the pandemic, with "[r]esidential building construction costs increas[ing] 3.8% in the fourth quarter of 2021, following a similar rise in the third quarter. Non-residential building construction costs were up 2.7% in the fourth quarter, decelerating slightly from the previous quarter," according to StatsCan in February 2022. "Non-residential building construction costs rose the most in Ottawa, Toronto, and Edmonton. However, for both Ottawa and Toronto, the quarterly growth decelerated compared with the previous quarter."

Softwood lumber prices rose in October and November (although they didn't reach early pandemic highs), and plastics, composites and wood costs "continued to be the largest contributor to the price increase in residential building construction. ... [there was also] stronger price growth for other important residential construction inputs, including finishes (drywall, paint, etc.), windows and doors, as well as thermal and moisture protection elements."

For non-residential construction, cost increases resulted from higher labour costs and a huge increase in the cost of metal fabrication products, including steel. (StatsCan)

Project approval timelines for residential construction in Edmonton, according to a 2016 Fraser Institute report, averaged 12.9 months, while compliance costs were significantly higher in Edmonton than Calgary ($32,273 vs $27,625). While the 2016 report states, "Opposition from the Council and community to residential development is perceived as strongest in cities where dwelling values are highest, raising questions about the causes and consequences of local resistance to new housing." Edmonton, however, has a lot to teach the rest of the country about affordable housing and densification, according to a recent CBC Radio segment, "Cost of Living with Paul Haavardsrud."

Like most other large Canadian cities, huge swathes of land in Edmonton were designated decades ago as single-family dwellings (exclusionary zoning). That meant developers had to go through the municipal appeals and redevelopment process before multi-family residential permits (for townhouses, duplexes, triplexes, and low-rise multi-family rental housing) could be approved. Edmonton "slowly and deliberately about 15 years ago changed the rules around lot sizes," as well as permitting basement and garden suites in all exclusionary zoning areas before eliminating exclusionary zoning completely. Ten years ago, the city decided 25% of all new development should occur within former exclusionary zoning areas. In 2021 Edmonton cancelled parking minimums for new developments, which can add tens of thousands of dollars to construction costs, and was the only city in the country to do so at the time. Spruce Avenue, an inner-city community dating back to the 1940s, and Westmount, an older community close to

Written by Ruth Seeley of No Spin PR

the downtown core, are two Edmonton neighbourhoods where densification has been implemented after the city made it harder to appeal new housing development proposals, revitalizing both neighbourhoods, which are now seeing young families move in. By implementing a series of incremental changes over a long period of time, Edmonton managed to reverse the trend of most other Canadian cities, where housing rules favour those who already live in the community, and the appeals process can be extremely time consuming. (CBC Radio)

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.

As of April 4, 2022, Edmonton's 3,500 municipal government employees, along with provincial government workers and staff of large companies like Stantec (1,000 workers), returned either part time or full-time to their offices. Stantec estimated 70% of its employees would be on site on any given day after April 4, after following a phased-in approach to returns to the office (as did the provincial government) that began in March. The province's new hybrid work policy allows eligible employees to work from home up to two days a week, while it's anticipated the majority of municipal employees will spend two to three days in office and the rest of the week working from home, according to CBC News.

"Through the pandemic, as the majority of employees worked from home, the city's downtown became a ghost of its former self. The stretch between 101st Street and 109th Street, once bustling with activity especially during lunch hours, was largely empty at the height of the pandemic. A number of retail stores and restaurants were forced to close during the period due to the lack of activity."

The Omicron variant derailed earlier plans for returns to the office originally scheduled for fall 2021. According to data from Altus Group, the Edmonton office market saw positive absorption of 15,516 square feet in Q1 2022 and after three consecutive quarters of decreasing total estimated gross rental rates, Q1 2022 saw a slight uptick from the previous quarter. Cushman & Wakefield noted this resulted from the removal of lower-priced Class C office space from the market. In Edmonton's central business district (CBD), average gross asking rent increased marginally (0.1%) to $37.50 per square foot (psf), while non-CBD space averaged $29.14 psf, up 0.41% in Q4 over Q3 2021.

In Q4 2021, One Twelve Business Campus leased a 75,000 sf space, while BGC Engineering moved from the suburban market to downtown offices in the Revillon Building on 102 Avenue NW, leasing 20,000 sf. Microsoft also leased 12,000+ sf in the Bell Tower, while Investors Group took up nearly 9,000 sf in Manulife Place. The Centre for Autism leased just over 10,000 sf in the suburban Parkwood Office Centre. During this period, the provincial government submarket accounted for 92,678 sf or 46.7% of total positive absorption. The overall office vacancy rate was 17.4%, with Class AA having the greatest positive absorption.

The delay in returns to the office and anticipated vacancies in the office market "is likely to drive up vacancy in the first quarter of 2022," according to Cushman & Wakefield, while "[r]ents are anticipated to remain lower than pre-pandemic levels until the pool of available office space contracts further." (Cushman & Wakefield, "Marketbeat Edmonton, AB Office Q4 2021"). According to Altus Group, the total vacancy rate in Q1 2022 was 17.4% and this rate has remained relatively stable since Q3 2021. Gross rental rates were $29.70/square foot in Q1 2022, which is the lowest they've been in the last 3 years. In 2021, an additional 120,000 of recently completed office space was added to the market. During Q4 2021, Venture Elite Equities Corp. sold its property at 7815 101 Avenue in the northeast suburban market (5,075 sf) for $1.7 million or$325 per square foot. The buyer was 2315701 Alberta Ltd.

In mid-March 2022 Avison Young announced it had completed a deal for Canadian Western Bank to lease 205,000 sf for its corporate headquarters in a new 16-storey tower to be completed in 2025. Located in the ICE District, a mixed-used sports and entertainment area, the building will become part of the 25-acre development in Edmonton's downtown core.

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.

In 2016 the Edmonton Census Metropolitan Area (CMA) was the largest in Canada by area at almost 3,640 square miles, with a population of more than 1.3 million. This made it the sixth-largest CMA in the country by population. It includes five cities in addition to Edmonton proper: Beaumont, Fort Saskatchewan, Leduc, St. Albert, and Spruce Grove, three municipal districts (Leduc, Parkland, and Sturgeon counties), 10 towns, three year-round villages and eight summer villages, as well as three First Nations' reserves. By 2021, Edmonton had a city population of 1,010,899 and a metropolitan population of 1,418,118, making it the fifth-largest city in Canada.

Edmonton had $32.5 billion worth of major construction projects in 2021 (an increase of 1.89%). Areas that are part of the Edmonton CMA but not part of the city proper are experiencing development increases, particularly St. Albert, Spruce Grove, and Edmonton's inland port, Port Alberta, as well as communities in its immediate vicinity, including Nisku and Acheson.

In Spruce Grove, Morrison Homes, Western Living, Bedrock and Cranston Homes are among the developers with single family homes under construction, while Pacesetter, Averton, and Cantiro Homes are creating townhouse and single-family communities and

Written by Ruth Seeley of No Spin PR

Streetside Development has two townhouse projects underway, one in the Easton area and the other just west of Easton at 50 McLaughlin Drive.

Boudreau Communities finally received approval from St. Albert's municipal council to build a 360-unit mixed-use condo development on the former Hole's Greenhouse site. The project, which was rejected by council in 2020 and represented an investment of $400 million by June 2021, has been modified to reduce the size of its towers. It will include 67,700 sf of commercial space and a three-storey seniors' housing complex as part of a planned walkable community.

The expansion of Port Alberta "to further develop and promote the area as an inland port has now been relaunched as a collaboration between the airport, the federal government's Prairies Economic Development Canada (PrairiesCan) department and Edmonton Global," was announced in late March 2022. The relaunch seeks to position Edmonton as a global supply chain critical hub for air, road, rail, and pipeline distribution. Its location close to the Edmonton airport means it's also close to "'several large and rapidly growing industrial areas, including Nisku to the south surrounding the airport, and Acheson to the west of the city." (Global News)

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.

High quality Class A industrial space in Edmonton is increasingly hard to find, according to Avison Young's "Edmonton Industrial Market Report Q4 2021." Total available lease rate was 5.6% in Q1 2022, which is the lowest it's been since Q1 2017. There were two notable sales in this category in 2021, both of new generation sales and distribution centres in Northport Business Park and Henday Industrial Park. Together, these sales represented 1.5 million sf covering 137 acres, with cap rates of 5.7% and 5.5%. Avison Young predicts a further compression of cap rates in this market, "with the potential to reach sub-5% averages for institutional-grade properties" in 2022. Cap rates for Edmonton's single tenant industrial asset class have been steadily decreasing since Q2 2020 with an average rate of 5.40 in Q1 2022.

The vacancy rate for Edmonton's industrial market fell 2.6% in Q4 2021 year-over-year. In Q1 2022, the total vacancy rate was 3.6%, the lowest it's been since Q3 2015. Land sales in 2021 included the purchase of 1.22 acres in Acheson for $1.27 million and 2.17 acres on 113 Avenue in Edmonton for $1.1 million, while there were four industrial building sales (ranging from 52,000+ sf which sold for $15.25 million to 210,750 sf for $19.7 million) for a total sales volume of $69.6 million in Edmonton's industrial market.

FedEx Ground leased more than 100,000 square feet in Discovery Centre III, while Culligan, the water treatment and filtration company, leased 48,000 sf in Cityview Business Park and EMCO Corporation leased almost 33,000 sf on 114 Avenue.

Throughout the Edmonton Census Metropolitan Area (CMA), vacancy rates varied wide by region, with a northeast vacancy rate of 1.5%. In central Edmonton the rate was 2.9%, while the northwest and south/southeast areas had industrial vacancy rates of 3.5% and 6.2% respectively. Vacancy rates in districts surrounding the city proper also ranged from 8.1% in Nisku/Leduc to 3.1% in Sherwood Park and 2.1% in Acheson. However, industrial vacancy rates declined consistently in all areas, from as little as 0.1% in the northeast to 2.2% in the northwest.

"[A]s confidence returns to those in the industrial market with continued investment in major industries, coupled with strong energy prices and a healthy job market, it will become increasingly difficult to find high quality space for great value as 2022 progresses .... Through 2022, large users over 100,000 square feet will find little out there for quality options, resulting in an anticipated spur in land sales and increased development for class-A Industrial." (Avison Young)

Canada's belated adoption of e-commerce throughout the pandemic is fuelling much of the demand for industrial space in all markets, including Edmonton. As brick-and-mortar sales declined during the pandemic (3% in the 12 months ending June 2021, according to the NPD Group's 2021 E-commerce Channel Report), online visits grew 25% and 82% of Canadians made online purchases between June 2020 and June 2021.

"E-commerce has been the focus for almost every industry over the past 18 months," said Tamara Szames, Canadian Retail Industry Advisor at The NPD Group. "When the pandemic began the vast majority of consumers were forced to shift their spend online, which ac[cel]erated the growth of the channel by almost 5 years."

According to StatsCan's November 2021 figures ("Let's go (online) shopping!"), **the number of Canadians shopping online increased 12% between 2018 and 2020, while online sales increased from $57.4 billion to $84.4 billion over the same two-year period. The vast majority of sales were of physical goods, including furniture and clothing (76%) and digital items (both goods and services – 68%).** "The COVID-19 pandemic has certainly forced many of us to change the way we shop. Between November 2020 and March 2021, 9% of Canadians said they bought physical goods online for the first time, and 13% said they ordered groceries online for the first time during the pandemic." (StatsCan)

Online Shopping

Written by Ruth Seeley of No Spin PR

Last-mile delivery is always the most challenging aspect of online sales, and Edmonton saw several deals in 2021 that involved big box distributors, with Amazon now the largest occupier of the Edmonton industrial market, although Sobeys, MTE, Canada Cartage and Fresh Direct also leased space in Edmonton last year.

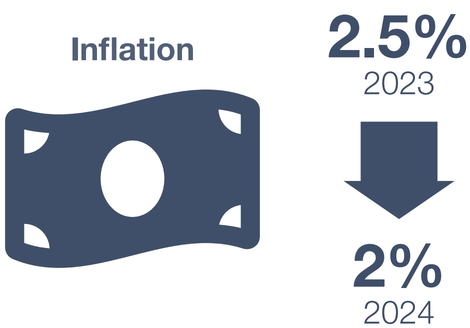
"For a market that traditionally builds in 100,0000 to 250,000 square foot increments, the news of developers looking to build in the 400,000 square foot to 500,000 square foot range shows a marked increase in the bet on distribution continuing to be a market leader." (Avison Young, "Edmonton Industrial Market Report Q1 2021")

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

As one of the few cities in Canada where a shortage of supply is not a huge factor in the housing market, Edmonton represents great investment value. *Western Investor*'s Frank O'Brien believes both tenants and landlords can still find opportunities in Alberta's big cities. While steadily increasing home sale prices, rising interest rates, and consumer price index inflation of around 6% anticipated for at least the first half of 2022, Edmonton's lower rents (it ranked 31 in Bullpen Research & Consulting's November 2021 "National Rent Report" index) may mean home buying is delayed for millennials and people looking to start families. But it shouldn't lead to a mass exodus or lower rents, as it did in both Vancouver and Toronto during the pandemic.

Now that Alberta has managed to reverse its out-migration trend which has prevailed for at least the last five years, Edmonton's lower rents should mean lower turnover, more affordable housing, and stability. **The Bank of Canada anticipates its benchmark interest rate increases will lead to a decrease in inflation to 2.5% by 2023 and reach its 2% target level by 2024.**



Between January and July 2021, Edmonton saw more than $350 million invested in multi-family residential, a whopping increase of 190% over the same period in 2020. "The first half of 2021 also saw a strong rebound in the multi-family development land market with the number of sales surpassing total sales in all of 2020." (CBRE)

While experts see prices continuing to increase in 2022, JLL Canada's Samuel Dean suggests pooling capital with other investors sooner rather than later, as he foresees a number of smaller multi-family blocks (20 units or less) coming onto the Edmonton market this year, as long-term buyers choose to retire and cash out.

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.

The revised version of Alberta Enterprise Corporation's (AEC) "2021 Alberta Technology Deal Flow Study" (July 2021) indicated there were a total of 2,806 tech companies in Alberta. Of these, 1,627 were based in Calgary, while 891 were located in Edmonton. This represented an increase of almost 1600 companies since 2018 overall. Tech companies headquartered in Edmonton increased from 394 in 2018 to 891 in 2020.

These start-ups included information and media companies, other industrials, professional and other services, health, wellness and medical, energy and mining, and agriculture, food, and bio-resources. In Edmonton, most of its tech firms were information and media companies (33.2%), professional and other services (24.0%), and other industrials (19.6%). The vast majority of founders of these start-ups (86.8%) have technology backgrounds, and nearly two thirds (67.9%) have previous start-up experience. This is reflected in growth statistics since 2018: "there has been a significant increase in the share of companies with 25 to 49 employees (13% in 2021 vs. 6% in 2018)." Almost three quarters of these companies (72%) were B2B rather than B2C start-ups. Of the companies surveyed, 18% are spin-offs from academic research, and these are the start-ups that are "located proportionately more in Edmonton (44%)." Their founders overwhelming have technical backgrounds (94%), and many produce innovative physical products (44%).

More important, in terms of long-term growth, by 2021 50.9% of these start-ups were in the "scaling" stage and 11.7% were in the "establishing" phase, and in those two categories, 48.3% and 41.5% had received more than $1 million in funding. Nearly 60% of AEC's 2021 survey respondents cited lack of access to capital/funding as their biggest and most immediate challenge. However, "compared to 2018, a lower proportion of companies have identified Access to Capital/ Funding as one of the biggest challenges—in 2018, this challenge was identified by 63% of companies (5 percentage points higher than in 2021)."

When the CBRE added Edmonton to its annual list of top tech centres (“Scoring Tech Talent” July 2021), CBRE Edmonton managing director Dave Young listed three key resources into which founders are tapping: tech infrastructure, tech ecosystem, and the University of Alberta as a “world-class centre of excellence in artificial intelligence.” Add a young, educated labour force and relatively inexpensive residential and office real estate, and CBRE concluded, “Setting up shop in Edmonton is cheaper than any U.S. market with a 500-person tech company leasing 75,000 square feet of office space costing about $45.4 million a year.”

The creation of Innovate Edmonton by Edmonton’s City Council in May 2020 has fostered an innovative culture and entrepreneurial mindset, while working to expose Edmonton entrepreneurs to potential sources of venture capital funding so they can continue to grow.

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.

Despite the increase in online shopping during the first nine months of the pandemic in 2020, Avison Young’s Retail Vitality Index data shows that bricks and mortar retailing is experiencing a rebound. That includes online shopping, big box and local retail purchases/visits, as well as trips to shopping malls. For the week of March 27, 2022, Edmonton in-person shopping volumes rose dramatically to 558,178, from the week of March 28, 2021’s 336,107 visitors.

This resulted from pent-up demand after numerous lockdowns, as well as increased savings over the course of the pandemic. As vaccination rates increased and the pandemic dragged on, retail therapy was embraced. As Avison Young’s Vice President, Retail Sales & Leasing Ali Fieder stated, “There’s a pent-up demand for in-person shopping experiences. People are excited to get out of the house and to have real-world experiences. We also know this [the 2021] holiday shopping season started early, likely based on concerns over product availability. People saw the reports about supply chain constraints and adjusted their behavior accordingly.”

Those supply chain constraints affected all aspects of retailing, with “snarled cargo volumes at major ports and other multimodal hubs.” Avison Young’s Erik Foster points out that over the course of the pandemic, “People’s habits and expectations have changed. If they are shopping online and see that the product won’t actually be in their hands for a week or two, they are starting to get nervous and just go shop in person.”

Written by Ruth Seeley of No Spin PR

Cushman & Wakefield reports ("Marketbeat Edmonton, AB Retail Q4 2021") that despite the Omicron variant and supply chain disruptions, **October retail sales in Edmonton increased 6.1% in October 2021 over October 2020, and rose 10.2% year over year. General merchandise, food and beverage, cars and parts dealers, health and personal care retailers, and clothing and accessories stores all saw increases in this time period of 5.2%-12%. The only sector that experienced a significant decline was electronics and appliance sales, -8.7%.**

Retail Sales

+10.2%
year over year

general merchandise
food & beverage
cars & parts dealers
health & personal care
clothing & accessories

electronics
appliances

With the return to work in Edmonton's downtown core, whether hybrid or full time, "new retail concepts and repeat businesses are expected to drive demand for retail space in Edmonton. Larger spaces that were once leased by restaurants are being backfilled by other users such as dollar stores, banks, and bike shops. Neighbourhood retail centres and shopping malls with high traffic locations will continue to be desirable among prospective tenants." (Cushman & Wakefield)

Retailers who were forced to introduce curbside pick-up during the pandemic are creating increased demand for smaller retail spaces. An innovative example of this concept is TMK's UNITE at Edmonton's Kingsway Mall, which showcases more than 80 local retail brands in a 6,700 sf space across from The Gap, allowing "new entrepreneurs to test having a physical location and to have an opportunity to expand their customer base." Additionally, several national brands have announced Canadian expansion plans. These include Giant Tiger, L.L. Bean, JD Sports, Chick-fil-A, Sephora, Dollarama, and Specsavers.

During Q4 2021, there were three major retail lease transactions. Virtual Land leased 32,000 sf in the West Edmonton Mall, while the Edmonton City Club took up 25,000 sf in the Edmonton City Centre and the Bambini Learning Group leased 10,100 sf in Jensen Lakes Crossing.

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.

Residential, industrial, and retail all offer significant opportunities in Edmonton, a market less mature than either Vancouver, Calgary, or Toronto. By mid-June of 2021, the *Edmonton Journal* reported that Edmonton's real estate market was increasingly on investors' radar.

Real Estate Investment Network's investors Patrick Francey and JG Francoeur view the provincial capital as offering significant value, with buyers able to get higher returns than in many other Canadian markets. "'We've been very bullish on Edmonton … for the past year at least, and even before that, prior to the pandemic, we were starting to see Alberta's economy recover, in turn, offering great investment opportunities in real estate,'" Francey said. "...[W]e look at what goes on in Calgary, and we see the future of what will go on with the market in Edmonton. ... What you can find … in Edmonton, quite easily relative to what's going on in B.C. and Ontario, is real estate that will produce cash flow.'"

The fact that Edmonton residential real estate is priced lower than most Canadian CMAs means investors don't have to rely on capital appreciation but can instead generate positive cash flows and build equity from investing in residential rental real estate.

There are also many opportunities in the Edmonton CMA industrial market. CBRE's Edmonton Managing Director Dave Young told *Western Investor* in late March 2022 that he couldn't remember a time when the Edmonton market was this active, and noted several large tenants were competing for space with an industrial vacancy rate of less than 5%. He also pointed out that net absorption was close to 4 million sf in 2021 and should exceed 4.5 million sf in 2022. According to Altus Group, Q1 2022 already saw over 1.2 million square feet of absorption. "With strong demand and no meaningful new construction in the pipeline, rents have rebounded past pre-pandemic levels. CBRE expects them to approach $10.60 a square foot this year," according to *Western Investor*. As of Q1 2022, estimated asking rate was $10.07/square foot.

Among key sales in Q4 2021 were five small shopping centres: Parsons Place, Klarvatten Plaza, 2950 Calgary Trail, 3223 Parsons Road, and the Goldbar Shopping Centre in the northeast. The majority of these sales were to numbered companies and represented a total investment of $37.3 million. (Cushman & Wakefield)

Approximately half a million sf of industrial building sales occurred during Q4 2021 in the Edmonton CMA, with properties in Edmonton (14530 – 121A Avenue, 8403 Roper Road and 11211 Winterburn Road) and Acheson (28712 – 114 Avenue) changing hands. These transactions amounted to almost $7 million in sales. Several more industrial properties in the Winterburn Industrial Area East have also sold in 2022, with city assessed prices ranging from $1.19 million to $3.8 million, according to honestdoor.com.

Written by Ruth Seeley of No Spin PR

CANADIAN MULTI-RES TENANT RENTAL SURVEY

Interested in purchasing the 2022 data or getting involved with 2023?

Contact Aman Chowdhary by email at aman.chowdhary@informa.com

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