Top 10 Real INSIGHTS

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1. HOW HAS THE CANADIAN ECONOMY PERFORMED OVER THE PAST YEAR? GIVEN RISING INFLATION, INTEREST RATES AND GOVERNMENT DEBT, WHAT LIES AHEAD FOR 2023?

The economy is gearing down" and that consumers and businesses need to buckle up for a slightly bumpy ride to endure the "loss of momentum" of a mild recession.

A host of car metaphors are being used to describe what's happening on the Canadian economic front to describe its 2022 performance and forecasts for the near future of the first half of 2023. Economists and financial analysts are agreed the economy is "gearing down" and that consumers and businesses need to buckle up for a slightly bumpy ride to endure the "loss of momentum" of a mild recession some see starting as early as the first quarter of 2023 and most by the end of the first half of next year.

In H2 2022, most of the economic news was gloomy. Employment declined in three of four months with a loss of 92,000 jobs. The BoC's rate hikes "are beginning to take a toll on both [Canada and US] economies." The decline in home sales was far more significant in Canada than in the US, down by one third in the six months between March and October compared with a 20 % price drop in the US. Canadian home sale prices also took a bigger hit.

RBC Senior Economist Josh Nye notes Canadian GDP grew marginally in July (0.1 %) and forecasts Q3 GDP growth at half the Bank of Canada projected increase of 2 %. "With the economy losing a bit more momentum than we previously thought and interest rates moving higher ... [w]e see Canada's jobless rate rising to nearly 7% by the end of next year from 5.2% in September." ("Crossing the Lines," RBC Financial Markets Monthly, October)

According to the Conference Board of Canada, "The main forces shaping Canada's economic outlook have changed little over the past several months, but they have evidently become more intense. The result will be a virtual stoppage of economic growth in this country.

Whether the economy steers past a recession will depend on the robustness of its shock absorbers. The negative influences are still here—war, COVID-19, inflation, rate hikes—as are their many spin-off implications to housing, spending, and investment." However, the Conference Board sees "underlying conditions are working in the economy's favour," partly due to "producers with hefty net savings to support hiring, wages, and investment. Tight labour markets will cool off, and wage gains will not quite match price inflation in the short term, but employment losses will be less severe than in past slowdowns." As European and US demand slows, however, non-energy trade will be "unsettled."

Despite the Conservative Opposition's allegations that "eye-popping government spending in response to the pandemic" and "half-trillion dollar inflationary deficits" have resulted in inflation economists are now describing as "sticky," since the September rate was only marginally lower (6.9 %, down only 0.1 % from August), the federal government is signalling that "now is a time for fiscal restraint" when it comes to emergency relief benefits, and that it is now focusing on creating an industrial policy to attract foreign investment in sectors such as electric vehicle manufacturing and critical minerals mining. (CBC, "Freeland warns of 'difficult days ahead' as Canada's economy shows sign of weakness")

Two more Bank of Canada rate increases are forecast between now and the end of the year, with the base rate likely to begin 2023 at 4 %. Key drivers of inflation at the end of September were food (20 %) and shelter (18 %), while gas and energy prices, still 16 % higher than in January 2018, had actually declined from inflationary peaks of 72 % and 29 % respectively in June 2022. (CBC, "Food keeps getting more expensive even as overall inflation slows")

2. WHAT IS THE FUTURE OF THE WORKPLACE ENVIRONMENT? WHAT STRATEGIES ARE COMPANIES IMPLEMENTING: RETURN TO THE OFFICE VS. REMOTE WORKING VS. A HYBRID MODEL?

Employees seem eager to continue working from home while employers try to navigate hybrid models.

Despite the discovery of new variants for which we have not yet developed vaccines, Canada is pursuing a "no more lockdowns" strategy almost two years into the COVID-19 pandemic. According to Deloitte, "Roughly 40% of Canadian workers now hold jobs that can be done primarily from home. ... there's no going back to a strictly place-based way of working. And we shouldn't. ...[C]ontinuing on our pre-pandemic trajectory would have put us on a less prosperous path as an economy and as a society." (Deloitte, "Getting Hybrid Work Right: Creating and Sustaining Inclusive Economic Growth in Canada")

The Deloitte report points out that hybrid work in its current iteration "is a privilege available primarily to well paid knowledge workers in urban centres" and warns that "protecting and supporting workers who can only work in person—a group in which low-income workers, single-earner households, and certain visible minority groups are overrepresented—will be critical."

Employee appetite for continuing to work from home is unabated. While there are some employees who are anxious to return to the office, a Deloitte survey of people who started working remotely in 2020 revealed that 80 % want to keep working from home for the majority of their hours. Nearly half that number though – 38 % – are concerned working from home will negatively impact their careers. And nearly 20 % of employers "find it difficult to trust employees to get work done in a hybrid setting."

Deloitte itself is an example of the new workplace normal. In September 2022 it moved into its new Vancouver office, where 20 % of (275 to 300 employees) of its 1,500 regional workforce are on site on any given workday, with the majority working in the office Tuesdays, Wednesdays, and Thursdays. Colliers Canada's surveys of its office tenants indicate that between spring and summer of 2022, there was an increase from 33 to 37 % of companies that had staff in office five days a week. Many companies introduced voluntary return to office policies in the spring; by fall more were looking at making working on site mandatory.

In Toronto, Strategic Regional Research Alliance research indicated that by mid-August 2022, employees working on site in office were still at only 30 % of pre-pandemic levels. Both the Toronto Transit Commission and the Société de transport de Montréal anticipated significant ridership increases in the fall, however, as both workers and students began commuting again.

Royal Bank, one of the country's largest employers, has made it clear it wants to see its executive and senior staff in the office more often, with CEO Dave McKay making the case in a LinkedIn post that technology-enabled remote work can't replicate the "energy and spontaneity that comes from connecting in-person."

Canadian Tire, with more than 50,000 employees, is not requiring corporate staff in hybrid roles spend a certain number of days working in the office, and the federal government is taking a department-by-department approach to creating hybrid work plans, with some departments requiring employees to return to the office only one day per week and others implementing three-day-a-week in-office models. (CBC, "COVID-19 changed office work. Here's what the 'next normal' looks like as people return")

"A hybrid model of remote and office-based work requires a thoughtful upskilling strategy focused on adopting digital tools and news ways of working to support productivity, collaboration and innovation in a virtual world. ... leaders need to adopt good virtual practices that engage their teams daily, model healthy habits and behaviours, encourage adoption of digital tools, focus on outcomes and results (versus inputs), offer clear direction and support, facilitate problem solving and increase visibility of performance." (PwC, "Canadian Banks Perspectives: Reimagining the banking workforce for a new world of work")

3. HOW HAS THE DOWNTURN IN NEW AND RESALE HOUSING PRICES IMPACTED THE MULTI-RESIDENTIAL MARKET AND INCREASING RENTS?

The average rent figure has increased nearly $100 since 2019's pre-pandemic peak overall across the country, while home prices decline.

Between February and September 2022, Canadian home resales declined 36 %. "Home resales in Canada (at 419,900 units on a seasonally adjusted and annualized basis) are the softest in a decade and likely to stay that way for a while longer."

British Columbia saw the largest decline (47 %), with Ontario and Alberta resale levels sharing second place for the largest drop, both at 41 %. "Activity is now below pre-pandemic levels in all provinces except Alberta, Saskatchewan, and Newfoundland and Labrador." "Property values similarly have declined in each of the last seven months nationwide and in most of Ontario (including Toronto), and the past six months in key BC markets (including Vancouver). Canada's composite

MLS Home Price Index has fallen 8.8% since its February 2022 peak, with smaller markets in Ontario (those that saw the greatest price appreciation during the pandemic) showing the sharpest corrections. That includes Cambridge (-20 %), Kitchener-Waterloo (-18 %), and Brantford, London, and Hamilton home prices declining 16 %. "[O]utsized declines" of 13 % in Chilliwack and 11 % in the Fraser Valley were recorded. (Rishi Sondhi, "Revised Rates Outlook Drives Downward Revision to Housing," TD Canada Trust).

CMHC's February 2022 "Rental Market Report" indicated the overall Canadian residential housing vacancy rate was 3.1 % for purpose-built rentals and 1.8 % for condominium rentals. Average two-bedroom rent was $1,167, an increase of 3 % for purpose-built apartments, and $1,771 for two-bedroom condo rentals.

Seven months later, rentals.ca reported that average rent for all property types was $2,043 per month. This represents an annual increase of 15.4 %, with rents increasing 4.3 % on average and a whopping 21.9 % from April 2021's $1,676/month. This means the average rent figure has increased nearly $100 since 2019's pre-pandemic peak.

Highest average rents were recorded in Vancouver and Toronto. In Vancouver by September 2022, one bedrooms were renting on average for $2,590, a 20.2 % year-over-year increase; two bedrooms for $3,707, a 26.4 % increase for the same time period.

Toronto one-bedroom rents were $2,474 (one bedroom) and $3,361 (two bedroom). Proportionally, however, Toronto rents saw larger year-over-year increases than Vancouver, up 27.5 % for one bedrooms and 27.7 % for two bedrooms.

Regina and Saskatoon were at the bottom of the rental market price scale, with one/two bedroom average rents of $1,010/$1,231 and $980/$1,215 respectively, which still represents year-over-year increases of 6.8 % in Regina and 14.7 % in Saskatoon.

Average rents for all of Canada reported by rentals.ca in September 2022 were $1,743 for one bedroom units and $2,217 for two bedrooms, up 15.36 % over September 2021.

According to Altus Group, average price per unit across Canada was $250,419.87 in September 2022, compared to $237,298.26 in September 2021.

The need for more space as working from home became the norm during the pandemic which led to a flight to the suburbs in many urban markets is starting to reverse itself.

In the last two years, "larger single-family properties and larger condos gained in popularity, leasing quickly, as tenants needed more space to work and educate from home (leading to smaller average listings in Q3-2020 and Q3-2021). As employers have brought employees back to the office, smaller units in centralized locations are in demand, and there are more large units on the market in comparison to previous years," according to rentals.ca.

Meanwhile, "Interest rate increases are damaging ownership affordability and keeping prospective buyers in the rental market. ... a softening ownership market, with forecasts for further declines are keeping prospective buyers on the sidelines, waiting for the market to bottom out. However, that ownership market slump is resulting in would-be sellers listing their properties for rent, instead of selling them, adding to the number of listings on the market. ... the total number of listings on Rentals.ca in September was the highest since Rentals.ca and Bullpen Consulting started this report in October 2018."

4. WHILE RETAIL WAS BRUISED DURING COVID, THERE IS CONSIDERABLE EVIDENCE NOW THAT CONSUMERS ARE RETURNING TO SPENDING MORE IN BRICK & MORTAR AS ONLINE PURCHASING DECLINES

Every Canadian province saw increases in retail sales, many as a result of higher gasoline prices.

During the pandemic, retail e-commerce sales, which have always been lower in Canada than in the US, began to catch up, rising to 7.4 % of total retail trade sales in May of 2021, which were $58,820 million. By April of 2022, with total retail trade sales of $60,685 million, retail e-commerce sales had declined to 5.2 % of the total, and that decline continued in May 2022, with e-commerce retail representing only 4.9 % of the $67,794 total retail trade sales. According to Stats Can, retail e-commerce sales were down 0.5% in September 2022 on a seasonally adjusted basis to $61.1B.

"On an unadjusted basis, retail e-commerce sales declined 23.5% year over year to $3.5 billion in May, accounting for 4.9% of total retail trade. The share of e-commerce sales out of total retail sales fell 2.5 %age points compared with May 2021, when many retailers faced restrictions on in-person shopping related to the spread of COVID-19." (Stats Can, "Retail trade, May 2022")

Sales declined in 7 of the 11 subsectors, representing 74.9% of retail trade. The decrease was led by sales at gasoline stations (-2.4%) and food and beverage stores (-1.3%). (Stats Can, "Retail trade, September 2022")

By August 2022, however, TD Economics reported e-commerce sales had risen 5.7 % and were up 8.1 % year-over-year.

With food price inflation hitting 9.7 % in May 2022, core retail sales increased 0.6% overall that month, reflecting a 1.9 % increase at food and beverage stores (+1.9%). General merchandise stores saw sales rise +1.4%) in May, marking the tenth increase in 12 months.

Miscellaneous store retailers (pet stores, cannabis stores, and office supply and stationery stores) saw a decline of -6.7 %, and a similar, although smaller, decline was seen at building material and garden equipment and supplies dealers for the second consecutive month, down -1.7 % in May. Sales in this sector are still considerably higher than pre-pandemic, however, up 5.7 % from May 2021.

Every Canadian province saw increases in retail sales, many as a result of higher gasoline prices. In the Montreal Census Metropolitan Area (CMA), sales rose 2.7 %, while in the Toronto CMA they increase 2.7 % and in Vancouver 0.8 %. Alberta and Manitoba saw increases of 1.9 and 4.9 % in May 2022, although the increase resulted primarily from higher sales at new car dealers rather than gasoline price increases.

High gas prices caused retail sales to dip in July, although they began to recover in August 2022, when the volume of gasoline sales rose for the first time since April. TD Economics forecast sales would begin to drop again in September, suggesting an overall deceleration trend. "[H]ousehold finances have taken a hit from the triple whammy of high inflation, rapidly rising interest rates and shrinking wealth. Thus it's no surprise that consumers are becoming more cautious, and have been scaling back on discretionary items, such as dining out and entertainment, with monthly gains in sales at bars and restaurants fizzing out over the summer months. Our high-frequency data on TD debit and credit card spending reaffirms that this weakening trend remained in place in August and September. All in all, consumers will have to make some tough choices in the months ahead, all of which point to significantly weaker consumer spending in 2023." (TD Economics, "Canadian Retail Sales (August 2022)")

5. THE INDUSTRIAL DILEMMA CONTINUES: HOW DO YOU GROW WHEN THERE IS INSUFFICIENT AVAILABLE SPACE?

Continued high costs of both land construction and zoning limitations for centrally located facilities will increase competition for existing space.

Since at least 2017, doom and gloom headlines have focused on lack of supply in the industrial sector. Here's a selection from renx.ca:

"Montreal industrial sector now a 'landlords' market'" June 6, 2017

"Canada's industrial vacancy at record low 3.3 %: AY" May 29, 2018

"Canadian industrial land prices rise as supply dwindles" November 26, 2018

"'Desperate' times: Laval industrial vacancy plummets" September 30, 2019

"Amazon, film industry gobble up Vancouver industrial space" March 5, 2020

There's no doubt increased demand and lack of supply of the kind of industrial tenants are seeking has driven rental rates to unprecedented levels in all Canadian markets. Average net industrial rents increased 17 % in Q3 2022 compared to Q3 2021. Year-over-year increases were 39.8 % in Southwest Ontario, while Calgary industrial rents increased 18.6 % and Winnipeg's 10.4 %.

During the same quarter, however, industrial vacancy rates plateaued for the first time in five months, holding stead at 1.1 %. The Vancouver vacancy rate was 0.4 %; Toronto's 0.5 %, while Montreal and Calgary's were 1.8 and 1.8 % respectively.

Strong industrial sales of $3.2 billion were recorded in Q3 2022 resulting in a $15.2B total for Q3 2022 YTD, a 28 % increase compared to Q3 2021 YTD, while buyers are now paying $242 psf for industrial on average. However, construction starts are up, with a 5 million sf increase in Q2. While "market conditions in the sector remain extremely tight due to a shortfall of leasable industrial space. ... new supply is expected to surpass the five-year quarterly average in the coming 18 months."

While "sky-high occupancy costs and lack of available product have begun to stunt user growth in the rest of the country," the prairie provinces are now seeing doubt digit growth. In Calgary rental rates grew 18.6 % in Q3 2022 compared to Q3 of last year, and Winnipeg saw a 10.4 % increase. Industrial space under construction has, however, increased for the eighth consecutive quarter. While industrial sales are still "robust," as interest rates continue to rise this may change.

Q3 2022 saw more than 1.5 million sf of new construction starts, bringing the total under construction to 41.3 million sf. That represents a 1.5 million sf increase over Q2 2022.

Constructions starts may start to decline in 2023, and sales volume will probably slow, but rental rates "are expected to continue moving rapidly up, due to pent-up demand and a potential shift of owner-occupied spaces to rental properties. Vacancy is expected to tick up modestly but will remain landlord-favorable over the next few years," according to Storeys.com

While demand for industrial space is being driven largely by e-commerce and logistics firms' need, and e-commerce sales could well reach over 33 % of total retail by 2031, "the slowing pace of e-commerce penetration has caused some logistics operators to delay new warehouse openings."

Continued high costs of both land construction and zoning limitations for centrally located facilities will increase competition for existing space. But "continued supply chain disruptions and elevated inflation could impact the tenants' bottom lines and could influence their location strategies."

We are already seeing this as the search for industrial expands from the Toronto CMA to Hamilton and Barrie. (Deloitte Insights, "2023 commercial real estate outlook")

Deloitte concludes owners and investors will need to leverage data analytics and special intelligence tools so tenants can maximize productive by personalizing their spaces. They should also focus on creative conversions and highly targeted location strategies. To ensure an adequate supply of capital, investors and owners will have to look for alternative sources of funding, including partnerships and debt funds.

6. HOW ARE REAL ESTATE COMPANIES INTEGRATING TECHNOLOGY AND INNOVATION INTO DEVELOPMENT, ASSET MANAGEMENT AND BUILDING OPERATIONS TO IMPROVE THEIR BOTTOM LINE?

While many companies may be planning to cut tech spending throughout the next year, those who invest could see the greatest gains.

Inflation, labour costs, and ongoing supply chain disruptions may mean some real estate companies will pause or even decrease their investments in PropTech in 2023, according to the Deloitte Center for Financial Services 2023 Real Estate Outlook Survey.

In North America, 25 % of companies plan to cut technology spending next year; 27 % will maintain their 2022 budget allocations next year, and 48 % plan to increase their tech spend. Globally 17 % of survey respondents said they intend to increase their technology budgets by at least 5 %.

Those who invest more in technology may see their leadership positions accelerating as a result. Investing in tech solutions that can increase revenues through fundraising, customer relationship management, and property operations management are top of mind for real estate companies who realize the need to integrate Internet of Things (IoT) data to maximize the efficiency of major energy and resource building systems, which has the added benefit of ensuring tenants are more comfortable. "A recent study has shown that low ventilation and poor air quality in offices can negatively affect cognitive function and impair productivity more than previously understood."

While only 9 % of respondents' portfolios can currently be considered "smart buildings," that figure will increase dramatically over the next five years, as owners and managers realize investments in analytics and data managers allow their analysts to focus on providing insight rather than hunting for data.

Real estate firms of all sizes are looking to increase operating efficiencies by outsourcing back-office and functions, including risk management and internal audit, property management, and tax accounting and reporting. Mid-sized and larger firms hope to outsource portfolio management and CRE development.

Almost half of all North American firms want to invest in PropTech firms that can automate processes, with 43 % of the Deloitte survey respondents choosing process automation as their "top target capability for proptechs," while 35 % want marketplace data and analytics and 33 % are looking to add AR/VR property visualization.

For developers, AI technology solutions that enhance building design, construction, and management are increasingly in demand, while climate-related PropTech reporting systems are sought to manage energy usage and carbon emissions as we move closer to regulatory deadlines for net zero buildings. Both Brookfield and JP Morgan Chase have already invested in PropTech that anticipates more stringent disclosure requirements and meets ESG goals.

Other technology investments in smart contracts and cryptocurrency payment capabilities – for both preconstruction deposits and rent payments – are on the horizon.

Deloitte's recommendations for technology investment include: outsourcing back-office functions so time and effort can be spent enhancing services and helping differentiate themselves from competitors; exploring and investing in technology now, even though it's a long-term investment; and considering investing in emerging technologies like smart contracts, tokenization, and the metaverse to determine how existing services can be complemented or enhanced.

7. WHERE IS THE INVESTMENT MARKET HEADING GIVEN THE CHANGE IN THE COST OF CAPITAL? WHAT IS THE DIRECTION OF BOND YIELDS?

Despite price drops in many commodities, consumer demand is waning and spending is decreasing significantly.

With economists in agreement that BoC rate hikes will continue and evidence indicating the substantial increases to date have not yet begun to dampen inflation, Government of Canada Bond Yields are up, priced in anticipation of a further 1 % increase in BoC rates either before the end of 2022 or very early in 2023. By October 10, 2022, bond yields were 3.621 %.

Despite price drops in many commodities – including oil, copper, steel, silver, lumber, and microchips – consumer demand as tracked by Canada's big banks, with their real-time view of cardholder spending data, is waning and spending is decreasing significantly.

"[I]nventories are building up at merchants across Canada, and to sell through these bloated inventories, prices need to be dropped. Accordingly, we will see a great deal of Black Friday and Holiday Season sales. These trends are very anti-inflationary. However, housing costs (ie. rents), food costs and travel/leisure activity continue to be strongly inflationary. "

While the BoC's rate hikes to date have not yet had the desired effect of cooling inflation, with two more rate announcements scheduled for the remainder of 2022 and a further 1 % increase to 4.25 % anticipated, "the narrative is also shifting away from the likelihood of a 'soft recession' in 2023 towards a harder-felt recession. At the point of a more severe recession, inflation is likely to be reduced significantly." (Altrua Financial)

Bond yields will continue to rise in anticipation of interest rate hikes, but will start to drop once the BoC and other central banks begin to lower rates to stimulate the economy after inflation has decreased to the 2 % target and we have weathered the recession. This may well not happen until 2024.

Colliers' "Canada Capital Markets Snapshot" noted that while most asset prices were stable, industrial continues to rise while office and multifamily saw slight declines in the Q2. "Solid fundamentals for industrial and multifamily seem likely to balance the effect of rising borrowing costs and help maintain stable prices moving forward."

Multifamily cap rates increased 0.11 % in Q3, and with a tight rental market likely to get even tighter in the short term due to both population growth and higher levels of immigration, "Fundamentals remain extremely strong for multifamily in Canada. ... rising mortgage borrowing costs can provide a tailwind for multifamily, as higher-income earners are squeezed out of the ownership market."

While office investment has seen a shift from institutional to private investors and investment fell to its lowest level in seven years in Q2 2022, psf prices haven't dropped. However, with new COVID-19 variants surfacing, the return to office may end up being a smaller phenomenon than anticipated. By the end of Q2, less than 50% of employees returned to on-site work in most major Canadian cities and "[d]owntowns and financial cores have lagged considerably."

Unlike retail, hotel investment nearly quadrupled in Q3 2022 quarter-over-quarter, with 9 transactions worth $206 million, making for Q3 YTD volume of $313 million, down from 2021's $4710 million, but up from 2020's $244 million. "Despite rising interest rates, an overall positive operating environment and limited new supply are providing confidence and optimism as we move through recovery." (Colliers)

8. ESG AT A CROSSROADS: A SPIKE IN GREATER CORPORATE PRIORITY, DE&I, IMPACT INVESTING AND SUSTAINABLE FINANCE

ESG has mutated from an emerging trend to "a critical component of real estate investment integrated into investment decision-making" according to international consortium The Counselors of Real Estate (CRE). 'COVID-19 has further cemented this new "norm" as risk management, resiliency, transparency and social engagement—key outputs of ESG—take center stage.'

As the risks of climate change become impossible to ignore, ESG performance tracking has improved and its acceptance has grown, due largely to the influence of millennial investors. By 2020, CRE had listed ESG as the 10th most important issue affecting real estate.

A year later, CBRE's "The Case for ESG Adoption" warned that ESG was increasingly influencing both investment capital and business operations. "[C]hanging investor expectations and anticipated regulatory changes are making ESG considerations more urgent, even while investors are challenged to generate strong returns." BentallGreenOak and Oxford Properties of Canada see investments that produce positive ESG outcomes becoming the norm sooner rather than later.

Brown discounts for buildings that are unlikely to meet anticipated regulatory standards are increasingly becoming the norm. While the economic investment in energy efficiency has always had a clearly demonstrable rate of return, as ESG adoption matures, social and governance issues are beginning to dominate.

"Institutional investors are largely addressing social concerns through hiring. For example, BentallGreenOak has declared that at least two-thirds of all future hires will be women and minorities. CEO Sonny Kalsi says BentallGreen's approach is to "take something that is really, really well intentioned and make it measurable and really hold our feet to the fire." (CBRE)

By December 2021, the first global benchmarking study of DEI metrics for commercial real estate was conducted by Ferguson Partners. It revealed 92 % of CRE firms had already adopted DEI initiatives. The survey tracked "gender, race/ethnicity and nationality across seniority and job functions in Asia-Pacific, Europe and North America as well as corporate practices in relation to DEI programs, recruitment, retention, training and development, inclusivity and pay equity."

While Europe was ahead of both North America and Asia-Pacific in terms of employing dedicated DEI professionals, 67 % of North American firms had established form DEI committees to develop, implement, and review DEI strategies and implementation. The report indicated that by the end of 2021, 92 % of CRE firms had instituted DEI formal programs or initiatives designed to improve workplace diversity, equity, and inclusion.

It also noted that globally, the CRE industry is relatively gender balanced, employing 58 % men and 42 % women, although this balance is skewed at the senior level. Globally women represent more than 50 % of full-time employees at the junior level, while they only represent 20 and 21 % respectively at the executive management and board of directors' levels.

Some firms, like Avison Young, have been focusing on DEI for some time, and have developed initiatives "to address a variety of seen and unseen diversity components, including racial, gender and sexual orientation equality," including developing unconscious bias training programs, a recruitment program to attract and retrain "underrepresented" talent, and partnering with diverse vendors.

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

Green lending and a regulatory push towards zero emissions are the two biggest drivers of sustainability within the commercial real estate sector.

As interest rates continue to rise, green financing loans that offer both better interest rates and loan terms will become increasingly important.

Green finance offers both environmental and reputational advantages in an industry that has long been (correctly) viewed as a major generator of greenhouse gas emissions (GHGs).

The Canada Green Building Council pegs residential, commercial, and institutional buildings contributions to the country's GHG emissions at 17 %, while building materials and construction increases the %age to almost 30 %. The building sector is, therefore, the third highest Canadian carbon emitter.

While net zero is easier to achieve when creating new supply (and the initial additional costs of green building materials are very quickly recouped), major CRE players such as KingSett Capital, Alberta Investment Management Corporation (AIMCo), and James Richardson & Sons Limited (JSRL), and Ivanhoé Cambridge have recently succeeded in transforming existing properties into Zero Carbon Building certified assets.

In Toronto, KingSett, AIMCo, and JSRL established a carbon transition plan for Scotia Plaza, its 68-storey building at 40 King St. W. The plan was easier to develop because the building already used very little combustion-based technology and has achieved a LEED Platinum certification level. Unusually for office towers of its size and era, Scotia Plaza's central heating has been electric from the start (the WZMH Architects-designed building was completed in 1988). Only four of its systems – main building humidification, parking garage and loading dock heating, and concourse restaurants – used combustion-based systems, and the plan adopted will transition the base building systems from fossil fuels, with only restaurant tenants continuing to use fossil fuel combustion for their cooking equipment.

The original building design meant the building's carbon footprint was low to begin with, emitting only the equivalent of 1,561 metric tonnes of carbon dioxide. KingSett assessed and offset the building's waste emissions, which were responsible for a further 1,194 metric tonnes. KingSett invested in Gold Standard carbon offsets, which are used to fund both emissions reduction projects and sustainable development globally.

The original design of Ivanhoé Cambridge's 2002-built head office in Montreal's International District, Édifice Jacques-Parizeau, also made the transformation to a net zero building easier. A ventilated double glass wall optimizes energy use and maximizes natural light.

In the building's atrium, sintered glass cuts down on heat-generating rays, which helps maintain a consistent temperature and reduces demand for air conditioning. New air is preheated from exhaust air, raised floor ventilation displacement, and other continuous commissioning processes in place since the building's construction.

Already a good candidate for transition to a Zero Carbon Building (ZCB) – Performance certification, it also serves as a pilot project as the company moves towards decarbonization of its entire asset portfolio. Already LEED Gold certified, Édifice Jacques-Parizeau participated in Quebec's multi-year Défi énergie en immobilier / Building Energy Challenge, designed to help develop and implement solutions that will reduce consumption and, therefore, emissions. Ivanhoé Cambridge wants to reduce its greenhouse gas emissions by 25 % by 2025.

10. THOUGHT LEADERSHIP IN THE C-SUITE: WHAT STRATEGIES ARE CEOS UNDERTAKING FOR 2023?

Leadership strives to put pandemic learnings into action.

The extended pandemic's effects have not been limited to either economic or health challenges. Our world has experienced a collective trauma that we need to address. As Marin Gjaja, Ford Model e's chief customer officer, said in a 2021 article, "It's not just about convincing people to come back to work. Workers who do come back will be less healthy physically, mentally, emotionally, and socially than they were before.

"We've never had, short of war, this kind of impact on human capital and social development—the disruption to schooling, the impact on marriages, the movement of people to new jobs. And I don't think we really know where this will go. Will this generation of kids—especially disadvantaged kids—be permanently scarred? Will it affect their capacity for economic output? Will these children be challenged socially? There are already plenty of signals that we've got a problem."

Retaining existing talent by investing in both careers and their physical, emotional, and social health will be key to business success post-pandemic.

Applying an equity lens to strategy to ensure companies aren't exacerbating wealth gaps is key to developing programs that work for everyone. BCG Washington-based Managing Director Justin Dean says an equity lens "not only enables you to promote social good. It will also help create differentiated value for your company."

Focusing on increasing digital capabilities that will help companies compete on "innovation velocity should be a pressing priority," according to BCG Managing Director Karalee Close. "Digital capabilities are critical to rapid innovation. ... [C]ompanies with leading digital capabilities gained more than five %age points of market share ... than those with lower maturity [and] achieve higher performance on almost every metric, including top-line growth, efficiency, and time to market. ... they continuously drive innovation. These companies also increasingly focus digital efforts on growth. They embrace AI and use the orientation around data to drive a real shift in culture."

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