



Top 10 Real
INSIGHTS

Winnipeg Real Estate Forum 2022

ISSUE 71

Powered by


AltusGroup

1

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

HOW HAS THE WINNIPEG ECONOMY CONTINUED TO PERFORM THROUGHOUT THE PANDEMIC?

While the effects of COVID-19 and materials shortages continue to be felt, other sectors of the city's economy are on the path to recovery.

2

DESPITE PANDEMIC DIFFICULTIES, WINNIPEG COMMERCIAL REAL ESTATE PERFORMS WELL

Retail is rebounding, with some adjustments.

3

PROVINCIAL AND MUNICIPAL POLICIES AND THE PANDEMIC IMPACT MULTI-FAMILY RESIDENTIAL

Vacancy Rates rise in purpose-built rentals, and there is a lack of supply of affordable rentals.

7

WHAT WILL OFFICE DEMAND LOOK LIKE POST PANDEMIC?

A slow, cautious return to the workplace in Downtown paints a bleak picture, but the suburbs fare slightly better.

6

STRONG DEMAND, LOW VACANCY RATES CONTINUE TO EXERT INTENSE PRESSURE ON INDUSTRIAL MARKETS

Despite added supply, demand continues to rise.

5

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

Labour shortages in construction but also in the service sector are driving up costs, and pandemic backlog exacerbates long municipal approval times.

4

WILL RISING INTERESTS RATES MAKE WINNIPEG EVEN MORE ATTRACTIVE TO INVESTORS?

The region's economic diversity and leasing stability could attract investors across all sectors.

8

DOWNTOWN REVIVAL: WHAT'S IN STORE FOR DOWNTOWN WINNIPEG POST-PANDEMIC?

Will the core be revived by the addition of housing opportunities?

9

MUNICIPALITY: INFRASTRUCTURE TO APPROVALS PROCESS

Red tape ties up new development, but pandemic innovation seeks to solve delays.

10

HOUSING AFFORDABILITY TOP OF MIND, EXACERBATED BY THE PANDEMIC

"Over the past year, affordability has worsened at the fastest pace in more than 26 years," according to the National Bank of Canada.

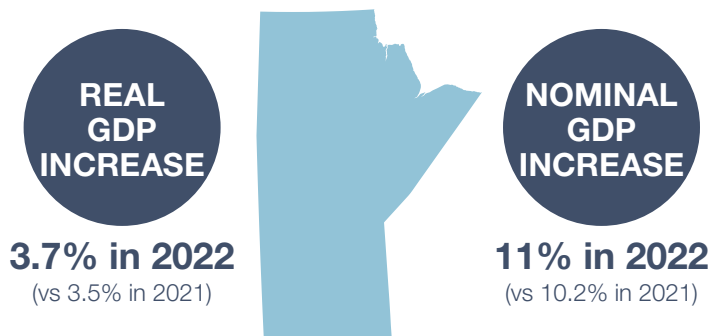
For further details on these top trends please visit the Real Estate Forums portal at realestateforums.com

1. HOW HAS THE WINNIPEG ECONOMY CONTINUED TO PERFORM THROUGHOUT THE PANDEMIC?

While the effects of COVID-19 and materials shortages continue to be felt, other sectors of the city's economy are on the path to recovery.

Both TD and RBC's 2022 economic forecasts for Manitoba are cautiously optimistic that its economy will continue to rebound in 2022, although TD's December 15, 2021, forecast is titled "Strong Growth Likely in 2022, Although Downside Risks Loom." **The bank predicts a very modest real GDP increase of 3.7% (up slightly from 2021's 3.5%) and a nominal 2022 GDP increase of 11%, up slightly from 10.2% in 2021.** Its economists forecast unemployment will decline to 4.7% from 6.9%, while it also anticipates a slight decline of 1.1% in housing starts year over year. Existing home prices will increase 12.7% (up from 2021's 10.1%), but home sales will decline dramatically, from 17.2% to -7.1% in 2022.

Manitoba GDP Increase



Among the factors impacting Manitoba's economic recovery, TD acknowledges the severe Omicron wave of the COVID-19 virus and the re-imposition of capacity restrictions towards the end of 2021 in the province's Southern Health Region, which includes three of the province's largest municipalities, Steinbach, Winkler, and Portage la Prairie.

Materials shortages had a somewhat stifling effect on growth, with transportation shipments down 7% from 2020's already "depressed" levels. Both oil and gas outputs were described as disappointing, despite price increases for both commodities, and building investment was also lower, with less non-residential construction activity cited as the cause. Severe flooding in British Columbia, whose ports are used for Manitoba's international commodity exports, coupled with severe droughts, also led to "a steep decline in production." The impact was lessened because rail service to the Port of Vancouver was restored relatively quickly after the floods, and Manitoba agricultural firms had sufficient storage capacity to withstand the delay and prevent spoilage.

Service industries saw solid growth in 2021, with retail spending up 12% (adjusted for inflation) by the end of September, although fourth-quarter capacity limitations will undoubtedly have affected this number. Services employment was, however, up 4% over 2020, but the bank anticipates "higher interest rates [will] take some steam from housing market activity and output in the finance, insurance, and real estate sector." (TD)

RBC's December 2, 2021, Provincial Outlook listed soaring commodity prices as the major factor in Manitoba's economic recovery. "Strong commodity prices have provided substantial support throughout the recovery, as did booming construction investment. To date, the vast majority of jobs lost during the pandemic have been recovered, and employee compensation has grown at a rate above the national average."

Despite lower crop and oil production yields (oil production was down 15% in 2021), already-rising energy prices and "soaring" canola and wheat prices will increase exporters' cash flow significantly. Two sectors will benefit even more dramatically from sanctions imposed on Russian oil imports and agricultural disruptions in both Russia and Ukraine due to the war.

Roquette's pea processing plant in Portage La Prairie should reach full capacity in 2022. This will increase output by 50% as Manitoba positions itself as a major producer of pea protein isolate. However, "the outlook for other manufacturing industries is mixed with supply chain issues still likely to pose a challenge for some time."

Home sales grew 55% between 2019 and 2021, and while TD also expects the home sales market will cool considerably, Manitoba's demand for housing will continue to grow as immigration rebounds. The Provincial Nominee Program issued 10,000 immigration invitations to skilled workers, international students, and urban and rural entrepreneurs in 2021, and that number may well increase if the province opens immigration further to include an influx of Ukrainian refugees in 2022.

As one of the Canadian provinces that experienced a smaller pandemic-induced economic retraction, RBC anticipates Manitoba will "bump up against capacity limits earlier on in 2022, causing overall momentum to decelerate more rapidly."

2. DESPITE PANDEMIC DIFFICULTIES, WINNIPEG COMMERCIAL REAL ESTATE PERFORMS WELL

Retail is rebounding, with some adjustments.

Notwithstanding the late-December reimposed capacity limits in the Southern Health Region (50%, although 100% capacity was allowed in all other areas of the province), 2021 continued to be challenging for retailers. Manitoba ended its Proof of Vaccination requirement March 1 and ended mandatory indoor masking requirements mid-month.

Morguard Corporation's "2022 Canadian Economic Outlook and Market Fundamentals Report" forecasts "Retail sector performance patterns will improve in 2022, with the loosening of pandemic restrictions and the return of shoppers to retail centers [sic]. With a more confident outlook, assets with necessities-based tenants will remain a prime target of investors. Leasing market conditions are forecast to stabilize in the second half of 2022, after an initial adjustment period."

The report predicts retail sales will increase 3.2% in 2022, for a variety of reasons leading to stronger spending patterns: pent-up demand, employment growth and an increase in household disposable income, continued low interest rates for the time being, as well as the sharp rise in single-detached housing starts in 2021. "[A] healthy retail sales growth pattern is predicted for the GWA over the next couple of years, in keeping with the national trend."

The trend to experiential retail was essentially paused during the pandemic, during which the main concern was safety, according to Ray Wong, Altus Group's vice president of Data Operations. In a February 2022 podcast, "Impact of the pandemic on Canadian Real Estate," Wong said the safety focus for retail included HVAC improvements, filter system installation, social distancing, and the imposition of both capacity limits and one-way traffic within stores, all of which impacted sales. While many national brands like Starbucks, The Gap, Godiva, Bed, Bath & Beyond, and Michael's closed some retail outlets or transitioned from an exclusive focus on bricks and mortar stores to increased online or drive-through sales, their place will be taken up by foreign retail and luxury brand expansion. He also pointed out, however, that not all malls were going to be able to cover the pandemic-induced drop in retail sales revenues, and there would be both some demolitions and changes in usage, particularly in tertiary markets.

Adding mixed-use developments to existing malls will help. Marlon Bray, Altus Group's senior director, Cost Consulting, said in the same podcast that "intensification of malls will be the story of the next 10 years, especially in secondary malls, then primary malls." Built in customers as a result of Transit Oriented Development (TOD) projects "has been going on for a long time and is logical. ... Office and retail will do very well," said Bray.

While the Morguard report indicated Greater Winnipeg Area retail leasing levels remained below par during the pandemic and "expansion activity declined sharply with the onset of the pandemic and subsequent lockdowns that lasted through much of 2021," the cannabis sector has expanded and major grocery retailers including Safeway/Sobeys, Co-op and Save-On-Foods have invested capital both by opening new stores and improving existing spaces.

On the other hand, "Retailers selling non-essential products, however, were forced to pivot to curbside pickup and various delivery platforms to generate revenue. The region's owners and managers of retail properties focused on rent collections. In some cases, collections fell sharply, as tenants struggled to adjust to ongoing in-person shopping stoppages."

Forecast cap rates for Winnipeg retail are expected to increase during the next three to six months though, according to Cushman & Wakefield. Regional malls' Q4 2021 cap rates ranged from 5.75% to 7.00%, while non-anchored strip plazas spanned a low of 6.50% to a high of 7.25%.

3. PROVINCIAL AND MUNICIPAL POLICIES AND THE PANDEMIC IMPACT MULTI-FAMILY RESIDENTIAL

Vacancy Rates rise in purpose-built rentals, and there is a lack of supply of affordable rentals.

CMHC's Rental Market Report, released in February 2022, showed the Winnipeg vacancy rate had increased to 5% from 3.8% in 2020 for purpose-built rentals, and average rents for two-bedroom units had climbed to an average of \$1,317, up 2.8%. The condominium vacancy rate was lower and stable, at 2.1%, while the average two-bedroom condo apartment rented for \$1,406. The combination of a significant increase in new rental supply and lower demand were responsible, but "adequate supply of affordable rental continues to be a challenge for lower-income households." (CMHC)

While 15,000 full-time jobs were added in the Winnipeg Census Metropolitan Area (CMA), immigration levels were only at 82% of pre-pandemic levels, and the unemployment rate in October 2021 was still higher than it was in February 2020 due to repeated lockdowns.

A total of 2,915 new purpose-built rental units were added in 2021 to the Winnipeg CMA, and CMHC indicated this trend will continue throughout 2022, with apartment units under construction 30% higher year-over-year as of October 2021.

Winnipeg Census Metropolitan Area



Rental increases were highest for smaller units, particularly bachelor apartments, whose rental rates increased 3.2%. This also drove up vacancy rates for these units. The apartment turnover rate increased as pandemic restrictions were lifted, to 17.7% in 2021 from 13.6% in 2020, while the price gap between vacant and occupied units decreased from 7% to 2% over the same period.

While the Winnipeg CMA has continued to add purpose-built multi-family rental units at the rate of around 1,500 per year for the last decade, the combination of fewer people moving within the city and fewer people moving to the city is driving up the vacancy rate. Winnipeg property manager Avrom Charach, a spokesperson for the Professional Property Managers Association, told CBC in mid 2021 most new construction was luxury apartments, with little affordable housing construction taking place. “There really is no new construction aimed at that dollar value, simply because someone building an apartment building for profit can’t even cover their costs at the \$625 [per month] rents we’re looking at.” He called for federal and/or provincial incentives such as better amortization rates for construction costs so developers could afford to build more affordable housing, or creating portable housing benefits tied to tenants rather than apartment units, so lower-income earners would receive subsidies on units not purpose-built as affordable housing.

In January 2022, the federal government announced \$12.7 million in funding for three small affordable housing projects specifically aimed at helping Indigenous people, domestic violence survivors, and LGBTQ+ residents find housing. The three projects, at 670 Main Street, 590 Victor Street, and 545 Broadway, will, however, only provide a total of 59 residential units.

The federal Rapid Housing Initiative, launched in October 2020, seeks to add a total of 466 units in Manitoba by the end of March 2022 by providing capital contributions to support the creation of new affordable housing units. The initiative covers both land acquisition and construction costs or conversions to affordable housing, provided the housing is available within 12 months of developers signing an agreement with CMHC.

The City of Winnipeg has also identified five Housing Improvement Zones (William Whyte, Spence, West Broadway, Centennial, and North Point Douglas), offering surplus city-owned lands in these zones for non-profit housing developers by allowing them to purchase at discounted rates and participate in the “Affordable Housing Opportunities in Housing Improvement Zones.” However, the Canadian Centre for Policy Alternatives noted in a 2021 report that Winnipeg has only one full-time person dedicated to creating affordable rental housing, compared with Regina’s two, Calgary’s 14, and Edmonton’s 20 staff.

4. WILL RISING INTERESTS RATES MAKE WINNIPEG EVEN MORE ATTRACTIVE TO INVESTORS?

The region’s economic diversity and leasing stability could attract investors across all sectors.

Economic Development Winnipeg’s business development team, called YES! Winnipeg, hopes to attract \$350 million in investment between 2021 and 2025. This will add to its recent successes: addition of a fourth Canada Goose retail outlet and a \$1.1 million warehouse investment in Winnipeg; Merit Functional Foods decision to locate its \$80-million pea and canola protein isolate plant in the RM of Rosser; Price Industries’ \$23 million expansion; SkipTheDishes’ \$15 million investment and location of its head office in Winnipeg; and video game publisher Ubisoft’s \$35 million investment in a Winnipeg office.

While Morguard’s economic outlook notes that investment transaction volume in the Greater Winnipeg Area was only \$21.3 million by the end of Q2 2021, it also concludes “near-term GWA office sector outlook is relatively stable, in keeping with its long-term track record. The stabilization will be driven to some extent by the region’s economic diversity. ... leasing market stability will continue to support positive investment demand patterns. Investors will continue to target the region’s prime office towers, which have traditionally provided attractive yields. As in the past, supply will be limited. On average, pricing will be lower than the pre-pandemic levels. Vendors will have little trouble achieving their objectives when selling properties, resulting in continued valuation stability. In short, stabilization will be the predominant market outlook theme over the near term.”

The industrial sector continues to be ripe with investment opportunities, however, reflecting a nationwide “preference for acquiring GWA industrial property over the recent past,” with both national and regional buyers “scour[ing] the GWA for acquisition opportunities. Warehouse and logistics space was highly coveted. Manufacturing space was also in demand. Investors looked to place capital into a sector that continued to outperform, despite the negative impacts of the pandemic on the local economy.”

Modest industrial property sales (\$30.2 million by the end of Q2 2021) resulted from lower supply levels rather than decreased demand. “Properties contained in the MSCI Index registered an attractive 10.4% return for the year ending June 30, 2021. The strong return was largely income driven. The GWA industrial sector’s recent performance strength justified its preferred status with investors over the past few years.” (Morguard)



Altus Group

See your real estate world with clarity, perspective and value-added insight

Our software, data solutions and expert advice provide transparency and insights to help our clients make informed decisions and maximize the value of their commercial real estate investments

GWA multi-suite residential rental property investment activity was strong in the first six months of 2021, with \$107.1 million of debt and equity capital investment, compared with a 2020 total transaction volume of \$122.7 million. Increased availability, high investor confidence levels, and a willingness of vendors and buyers to work together on pricing made for higher transaction closing volumes. According to Morguard, the most sought-after subcategory was high rises, with low-rise wood-framed assets also popular. “Investors looked to increase their exposure to an asset class with a solid track record of performance and a positive outlook. The motivation for some buyers was the fact that GWA yields were higher than those of Canada’s larger cities. For others, portfolio diversification was the primary motivation to acquire properties in this market. In combination, the various motivations of investors supported an above-average flow of capital into the GWA.”

As employment returns to pre-pandemic levels, population increases continue, driven primarily by immigration, “competition for a limited number of assets made available for purchase will remain high over the near term, a period during which sector fundamentals will improve,” according to Morguard. Canada’s announcement at the beginning of March that it will create both a new visa category to accept an unlimited number of Ukrainian refugees (Canada Ukraine Authorization For Emergency Travel program) as well as an expedited path to permanent residency for Ukrainians with family already in Canada should ensure immigration levels will quickly rise to pre-pandemic levels, driving demand for multi-family housing throughout the province. Manitoba has the highest proportion of Ukrainian immigrants in the country (14.5% of its ethnic makeup), while the Winnipeg CMA has the second highest Canadian-Ukrainian population (15.2% or 649,995 individuals).

Given the gradual increase in interest rates planned by the Bank of Canada and the lower cost of Winnipeg real estate, secondary and tertiary markets will become increasingly attractive to investors who can no longer afford primary markets like Toronto, Vancouver, and Montreal.

5. DEVELOPMENT: LABOUR SHORTAGES, CONSTRUCTION COSTS AND MUNICIPAL APPROVAL PROCESS PROVE CHALLENGING

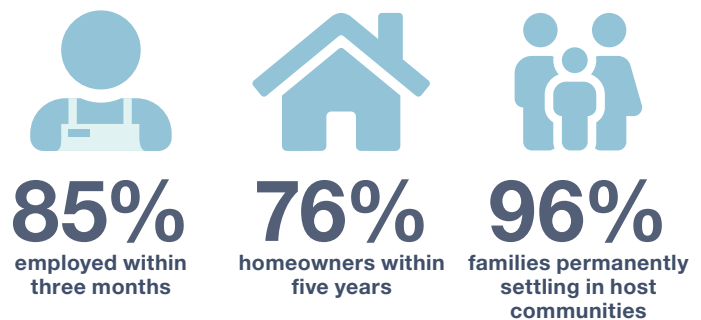
Labour shortages in construction but also in the service sector are driving up costs, and pandemic backlog exacerbates long municipal approval times.

Between 2014 and 2019, Winnipeg added 1,707 or 7.6% to its total construction employment figures, with 24,024 employed in this sector in 2019, according to Manitoba’s “Winnipeg Economic Profile.”

The Manitoba Ministry of Economic Development, Investment and Trade forecasts there will be 27,500 job openings in trades, transport, and equipment occupations between 2021 and 2025, which represents 19.4% of all anticipated openings.

The provincial government response to a forecast 20,000-person shortfall by 2020 of skilled workers, tradespeople, and professionals was to create the **Manitoba Provincial Nominee Program (MPNP)**, which selects trained, experienced workers with in-demand skills to meet the local labour market, then nominates them to receive Canadian permanent resident visas. **The program seems successful, with 85% of nominees employed three months after arrival, 76% becoming homeowners within five years. There is a 95% retention rate of families permanently settling in host communities.**

Manitoba Provincial Nominee Program



Labour shortages in the service sector are proving challenging, however, with retail outlets and restaurants not always able to find staff to keep their doors open, especially during the Omicron wave. Winnipeg’s Staffmax Kevin Gill told 680 CJOB in January 2022 that “Staffmax has filled temporary dishwasher positions that pay \$20/hour,” while Manitoba’s minimum wage sits at \$11.95.

That means labour shortages are driving up labour costs, and are adding to skyrocketing construction costs. StatsCan’s Canadian Construction Cost Index showed Winnipeg’s Building construction price index had increased 16.6 basis points (bps) year-over-year between Q4 2020 and Q4 2021 (for residential construction) to 138.8 while non-residential construction rose 9.7 bps to 116.4.

The steepest construction cost increases are for materials, however, with shipping costs quadrupling between 2020 and 2021, the price of steel tripling during the same period, and copper increasing 40% in price. Lumber prices peaked in mid-2021 and have been declining since September of last year, according to JLL’s “Q4-2021 Canadian Construction Outlook” report.

The Canadian Home Builders’ Association notes that development approvals take between a year and a half to two years or more, and that developments requiring multiple application types could take “an average of 20.3 months, compared to 11.7 months for developments requiring only a single application.” Western Canadian timelines were shorter in Eastern Canada, “typically in the 9-to-15-month range” and “[a]pproval periods are generally lower in Winnipeg....” (CHBA) However, as Marlon Bray said in the Altus Group podcast, Canada doesn’t have a development problem, it has an approvals problem.

6. STRONG DEMAND, LOW VACANCY RATES CONTINUE TO EXERT INTENSE PRESSURE ON INDUSTRIAL MARKETS

Despite added supply, demand continues to rise.

Annual net absorption of 752,000 square feet in Winnipeg's industrial market reflected record demand, with the availability rate dropping to 3.2% in Q4 2021. This low vacancy rate hasn't been recorded since 2018, and net absorption is the highest in five years. Net rental rates increased by almost \$1 to \$8.88 per square foot, a record high. Landlords are receiving multiple offers for industrial space and deals are being snapped up. These deals include longer lease terms and lower tenant improvement allowances as well as higher rents, according to CBRE's "Winnipeg Industrial Figures Q4 2021" report.

Despite 175,000 square feet of new supply added at the end of 2021, demand still exceeds supply, and the trend to higher rents and longer lease terms is expected to continue throughout 2022. "The demand for industrial and logistics space in all major markets across Canada has brought the national availability rate down to 1.8%, with some markets experiencing availability rates of below 1.0%. With no entry point into these larger markets, industrial & logistics users have been forced to look inward at markets such as Winnipeg." (CBRE)

Other trends in industrial markets include a preference for newer buildings with higher energy efficiency as well as higher ceilings (in excess of 20 feet). The market availability rate dropped 30 bps in Q4 2021 to 3.2%, and older properties will need to redevelop and repurpose to meet new user demands.

The pace of construction has increased, with two projects completed in Q4 that added more than 250,000 square feet of industrial space in the Regional Municipality of Rosser just to the northwest of the city and in northwest Winnipeg itself. MML completed construction of an 80,190 square foot building, one of two planned for Rosser's CentrePort Canada in Q4. Of that total, 40% was pre-leased. The second should be available for lease by the end of Q3 2022. The 20,000-acre dry port, adjacent to the Winnipeg airport, is the largest tri-modal inland port and foreign trade zone in North America.

In northwest Winnipeg, QuadReal Property Group added 175,000 square feet of industrial, with completion of the second of six planned buildings. Construction of the remainder is scheduled to begin in Q2 2022. "In a market where the development pipeline is usually spoken for, the change in pace is favourable for continued growth in the Winnipeg industrial market." (CBRE)

Most lenders, according to CBRE, "expect the current levels of industrial rental rate and price growth to persist and outpace the historical norm for 2-3 years. ... the pace of development may not be able to catch up to the current demand in markets across Canada."

Despite heightened demand and higher rental rates, cap rates for Class A industrial showed a downward trend in Q4 2021 according to Cushman & Wakefield, ranging from 5.25% to 5.75%, while Class B industrial cap rates were projected to remain stable for the next three to six months, between 6.00% and 6.50%.

7. WHAT WILL OFFICE DEMAND LOOK LIKE POST PANDEMIC?

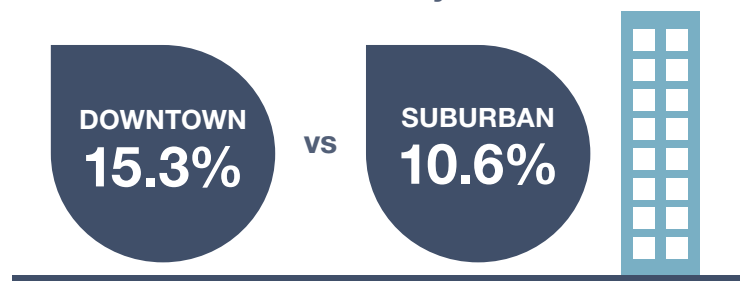
A slow, cautious return to the workplace in Downtown paints a bleak picture, but the suburbs fare slightly better.

CBRE's "Winnipeg Office Figures Q4 2021" paints a rather bleak picture for downtown Winnipeg office space. The City of Winnipeg deferred its return-to-office plans, while leasing decisions were being postponed as the country faced the highly transmissible Omicron wave of COVID-19. "Leasing activities have remained sluggish" and "a recovery in the [d]owntown core remains distant," according to CBRE. The overall **Q4 Downtown core vacancy rate increased to 15.3%** or 72,593 square feet, a 70 bps rise. It also marks the fourth consecutive quarter of negative absorption in 2021.

As of March 2, 2022, however, Downtown Winnipeg BIZ representative Kate Fenske told 680 CJOB she forecast a lot more workers returning to downtown office spaces this spring, although they might follow the hybrid model set out by Ontario, which is asking employees to return to work three days a week beginning April 4. Between various levels of government employees, Canada Life, and Manitoba Hydro staff, about 10,000 downtown core employees have been working from home during the pandemic. "It's likely going to be phased in, a sort of a cautious approach," Fenske said. "... I think we're a little bit slower here to come back."

The **suburban Winnipeg office market** was very different from downtown, however, absorbing 75,000 square feet, **with a vacancy rate of only 10.6%**, down 70 bps. Demand has been particularly high in the southwest. In Q4 Hopewell Development supplied 54,000 square feet of suburban flex office space, 35% of which was pre-leased. Two other similar offices are planned for this development.

Office Vacancy Rate



There was good news on the sublease front, however, with availability declining 300 bps to 2.7%. The dip in subleasing demand resulted from requests for shorter leasing commitments. New tenants were feeling their way towards hybrid work models that allowed for both return to work and continued work from home options. Availability declined as demand increased, less inventory was added, and some sublease space was withdrawn.

While rental rates remained stable at \$19.33 per square foot (psf) for Class A spaces (\$15.21 for Class B and \$13.42 for Class C for an overall average of \$16.11 psf), tenants are increasingly demanding new or newly renovated office space, such as the recently upgraded buildings at 201 and 330 Portage Street. The Class A vacancy rate increased slightly to 14.4%.

The 100% pre-leased Wawanesa Insurance offices in True North Square's 300,000 square foot tower began construction and will be completed by the end of 2023. This is the first new Class A office tower in downtown Winnipeg since 2018.

In terms of cap rates, Cushman & Wakefield's "Q4 2021 Cap Rates and 2021 Perspective" forecast only Class B downtown cap rates, currently ranging from a low of 6.5% to a high of 7%, are likely to rise over the next three to six months, while Class AA and A cap rates will remain stable in the 5.25% to 5.75% and 5.50 to 6.25% ranges respectively.

A bright spot identified in mid-2021 by Avison Young's Canadian Research Practice Leader Bill Argeropoulos, however, was that office lease terms had finally reversed the downward trend that prevailed from the onset of the pandemic in March 2020 to June 2021. Over that period they fell 16% to an average of 59 months, hitting a low point of 47 months by February 2021. Prior to the pandemic, for almost four years prior to February 2020, the overall average lease term was 70 months. By June 2021, the average lease term had rebounded to 68 months, its highest since April 2020.

8. DOWNTOWN REVIVAL: WHAT'S IN STORE FOR DOWNTOWN WINNIPEG POST-PANDEMIC?

Will the core be revived by the addition of housing opportunities?

Winnipeg's Downtown Recovery Strategy, developed by three downtown business improvement agencies, CentreVenture Development Corporation, Tourism Winnipeg and City of Winnipeg planning staff, issued its final report in October 2021. The public-private partnership over the course of the last 20 years has been highly successful in revitalizing Winnipeg's downtown core. Results include the creation of a 24-hour population, 5,000 new homes serving 8,000 new residents, and an increase in not only safety but also a newly vibrant city centre. "The pandemic has reinforced

the need to continue this housing strategy and to increase the number of people who support downtown businesses outside of typical office hours. ... Downtown's recovery is intertwined with the need for a new range of housing options..." to ensure "downtown is a vibrant and inclusive place to live." ("Downtown Recovery Framework, October 2021")

The report calls for:

- 1,500 more mixed-income housing units to be built in downtown Winnipeg over the course of the next three years
- the elimination of barriers to the development of low income, transitional, and social housing, including making more land and buildings available for renovation
- aligning marketing plans with downtown Winnipeg educational institutions so students will have more downtown living options; and
- supporting efforts to increase international immigration to the provincial capital.

The 2021 Rental Market Report from Canada Mortgage and Housing Corporation (CMHC) identified weaker rental demand in the Winnipeg CMA even though the city added 15,000 jobs between October 2020 and October 2021. The majority of the gains were among those just entering the workforce, 15-24 year olds, who lost almost 33% of their jobs when pandemic lockdowns were reimposed at the beginning of 2021.

The gradual easing of border restrictions beginning early in the year meant Manitoba immigration had increased 82% year-over-year by mid 2021, although it was still lower than usual. Immigration is one of the largest market forces driving demand for rental housing, and that is particularly true of downtown Winnipeg, with a 17% recent immigrant population, according to the Institute of Urban Studies "Winnipeg Downtown Profile: A Special Report on Demographic and Housing Market Factors in Winnipeg's Downtown," published in 2017. "Compared to the city as a whole, the downtown has a higher percentage of younger adults aged 20-39 ... a lower percentage of children ... and a slightly higher percentage of older adults, especially women aged 70+. ... These groups have particular needs and constraints on housing." Average downtown total household income, the report stated, was only 54% of the city's average, due to smaller households and lower incomes.

Lockdowns and lower immigration rates combined with increased supply led to a 1.2% increase in the Winnipeg CMA vacancy rate, from 3.8% to 5% between 2020 and 2021. This represents the city's highest vacancy rate since 1997. There were 2,915 more purpose-built apartments in 2021, another record-setting increase (the highest since CMHC began tracking this statistic in 1990). 2022 will continue this trend, as the rate of apartment units under construction was 30% higher in October 2021 than a year prior.

CBC News' Bartley Krive framed the issue cynically but succinctly in his mid-2019 article "No cause for panic — or celebration: Downtown Winnipeg developers driven by profits, not altruism." He noted Winnipeg's "sluggish population growth before targeted immigration programs brought the city its fair share of newcomers," a flight by the retail sector from downtown to join suburban big-box centres, and a downtown that was "built too large to benefit from a critical mass of redevelopment in any one area." By ignoring "the key ingredient for inner-city revitalization: residential housing, which ensures people live downtown and spend money there every day of the year," Krive identified Portage Place as a "vital community space for inner-city residents, many of them newcomers who live in the populous Central Park neighbourhood," and went on to point out the mall's two pads would make building residential towers much more cost effective than building from the ground up. "Winnipeg still has a demand for residential apartments, especially new stock, and will continue to experience this demand as long as newcomers continue to arrive in what the rest of Canada views as a very stable market."

Of course, Starlight ultimately pulled out of its \$70-million acquisition deal in late September 2021, unable to negotiate federal government funding, including a \$243-million loan, despite the City of Winnipeg's and the province's \$50 million cash and incentives commitment. (CTV News Winnipeg)

9. MUNICIPALITY: INFRASTRUCTURE TO APPROVALS PROCESS

Red tape ties up new development, but pandemic innovation seeks to solve delays.

The total number of non-residential building permits issued by the City of Winnipeg in September 2020 was 266; in September 2021 that number increased to 311, according to Statistics Canada. Overall, **there was an increase of 25% in provincial building permit numbers over that time-period. But non-residential building permits were up only 3%, while industrial permits actually declined 45% in 2021 (Winnipeg Construction Association).**

Building Permits in 2021

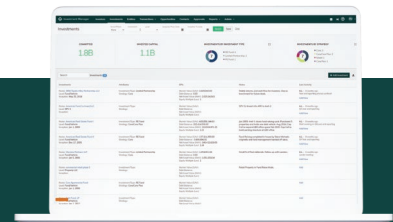



Yardi® Investment Suite

How do you optimize the investment lifecycle?

Grow investor confidence with a single connected platform that:

- Provides investors online access to key document and investment metrics
- Streamlines capital transaction processes
- Automates the fundraising process for new investment opportunities



Software for real estate professionals
(888) 569-2734
Learn with us at yardi.com/webinars

©2022 Yardi Systems, Inc. All Rights Reserved. Yardi, the Yardi logo, and all Yardi product names are trademarks of Yardi Systems, Inc.

Get
the
details



Both the Canadian Federation of Independent Business and the Winnipeg Construction Association have presented the City of Winnipeg with a series of recommendations to reduce “red tape surrounding new development.” An approvals process that rivals construction time periods is too long. Oddly, however, working from home restrictions during the pandemic may have actually speeded up the process and eliminated some construction delays, particularly those relating to inspections. Manitoba Homebuilders’ Association President and CEO Lanny McInnes told the *Winnipeg Sun* in late February 2022 that by working closely with the City of Winnipeg during the pandemic on alternative solutions, such as virtual inspections, they’ve been able to ensure “the proper resources are in place to improve and sustain timelines when it comes to how quick a permit gets processed or how long it takes to book and then get an inspection. Those are our high-contact areas as an industry. I think certainly over the last two to three years we’ve been making progress working with the City to streamline some processes and to help make sure that permits and inspections are happening as timely as they can.”

There is, however, still a lot of room for improvement when it comes to reducing red tape. It was March 2021 before the city dealt with an ongoing problem that seems absurd. According to the Winnipeg Construction Association’s Darryl Harrison, “Historically, builders and contractors had a one-hour window in the morning where they could call the city to arrange an inspection. Often, people were unable to reach the city.” (*Winnipeg Sun*) Naturally this led to project delays. Winnipeg has now created a booking system so inspections can be arranged in advance. Harrison described the change as a dramatic improvement. “We’ve worked with Planning, Property and Development, and they have been really good in developing the booking system,” Harrison said. “Now we just have to further work with them to be able to offer them both.”

There seems to be at least some political will at the municipal level to continue to reduce red tape causing delays to the permitting, inspection, and approval processes. Meanwhile, provincially mandated changes to the *Planning Act* and the City of Winnipeg Charter will “ensure municipal governments make timely and transparent decisions on private sector capital investments in their communities.” (*Winnipeg Sun*)

10. HOUSING AFFORDABILITY TOP OF MIND, EXACERBATED BY THE PANDEMIC

“Over the past year, affordability has worsened at the fastest pace in more than 26 years,” according to the National Bank of Canada.

While Winnipeg’s apartment vacancy rate is relatively high, with new supply being added every year, housing affordability has become more of an issue during the pandemic. In October 2020, a Winnipeg resident had to work 159.5 hours per month to ensure their monthly

rent for a two-bedroom, purpose-built rental apartment that didn’t exceed 30% of their gross income. By October 2021, this figure had increased by 4.5 hours of work per month to 164.0. This was the fourth highest figure of all major Canadian cities, behind only Vancouver, Victoria, and Toronto, according to CMHC’s October 2021 Rental Market Report. Full-time employment is considered to be 150 hours per month at a rate of 37.5 hours per week. This means single average wage earners in Winnipeg would need another source of income to afford an average rental unit.

While overall rental prices increased only 2.6% in 2021, same-sample rents for bachelor units increased by 3.2% as the majority of those who moved looked for larger spaces due to pandemic work from home restrictions.

For those earning less than \$25,000 a year, affordable rent at 30% of gross income would be just under \$625. In Winnipeg, 20% of all renter households need accommodation at this price, but only 3% of 2021 rentals could be considered affordable. (CMHC)

National Bank of Canada’s “Housing Affordability Monitor” stated, “Housing affordability in Canada worsened by 2.1 points in Q4’21, marking a fourth consecutive quarterly deterioration. Over the past year, affordability has worsened at the fastest pace in more than 26 years.” While Winnipeg’s affordability decline wasn’t as bad as Victoria, Toronto, Hamilton, Vancouver, Montreal, Québec, Calgary, or Edmonton’s, “[t]his was the fourth consecutive quarter with a worsening in all markets.” (National Bank)

Both home price growth and rising interest rates contributed to Winnipeg homes becoming less affordable. The popularity of variable rate mortgages provided a hedge against rising interest rates in Q4 2021, but this will vanish as the Bank of Canada continues to gradually raise rates. National Bank anticipates a 125 bps increase over the next year. Median value of single-family homes increased 14.7% in 2021 to \$390,000; condos increased 16.1% to \$233,600. (*Winnipeg Sun*)

In a January 20, 2022, guest column for the *Winnipeg Sun*, Danny Parys called for Winnipeg to take “a serious approach to increasing housing supply now.” While Winnipeg is “still by and large affordable,” he called on the city to “to ensure we protect housing affordability... to avoid the costly mistakes that Vancouver and Toronto are dealing with now.”

Developers are still looking to the City of Winnipeg to take the lead in making affordable and inclusionary housing possible, by enacting clear policies and accurate timelines for the development and approval process, according to the Canadian Centre for Policy Alternatives’ (CCPA) December 2018 study, “Keeping Winnipeg Affordable: Exploring the Potential for Inclusionary Housing in a Slow-Growth City.” CCPA stated, “Recent studies have identified the City of Winnipeg can, and should, do more to stimulate affordable housing creation and follow the lead of other similar Canadian cities.”

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