Canadian Real Estate
Market Update

FIERA REAL ESTATE

FEBRUARY 2021

Canadian Economic Overview

The Canadian economy should regain confidence in 2021, with a swelling savings rate accentuating the recovery. More importantly, the Canadian government has vowed to keep the fiscal taps open to alleviate any lack of liquidity for the private sector, while the Bank of Canada has also pledged its continued support.

- The Canadian economy experienced a rebound of 8.9% in Q3 2020[1] (most current data available as at date of publication) which followed a negative real GDP reading of -2.1% and -11.5%, in Q1 and Q2[2], respectively
- Real GDP is expected to fall by 4.3% for the full year 2020, followed by a robust recovery of 6.0% in 2021[3]
- The national unemployment rate peaked at 13.7% in May and ended 2020 at 8.6%[4] – a material improvement; however, rolling lockdowns increase the risk of another disruption to national employment
- Magnitude of job losses is expected to be less pronounced with the prospects of the vaccine roll-outs around the corner
- Bank of Canada implemented three separate 50 basis point ("bps") emergency rate cuts in March 2020 alone, decreasing the Overnight Rate from 1.75% to 0.25%
- Lagged impacts from the flood of monetary and fiscal stimulus already in place are likely to amplify the rebound in 2021 and beyond

Industrial

- Canada's industrial markets have demonstrated extraordinary resiliency to the current pandemic and economic downturn
- Vacancy rates increased 0.3% to 3.3% in 2020, but national net rents still managed to grow 8.6% year over year ("Y/Y") to $9.44 per square foot[5]
- Leasing velocity in Canada's gateway industrial markets accelerated in the second half of 2020
- Large bay warehouse segment has been the most resilient providing the demanded space for e-commerce retailers

Summary

With many institutional investors experiencing pent-up capital deployment, it is likely that the industrial sector, which no doubt has the strongest national fundamentals, will receive the dominant share of investment volumes. Capital flows will likely continue to push valuations primarily higher for warehouse and distribution centres, as well as industrial land for future development.

1. Statistics Canada
2. Statistics Canada
3. Conference Board of Canada
4. Statistics Canada
5. CBRE Q4 2020 MarketView

Office

- Strong demand from tech tenants has benefitted key Canadian office markets such as Vancouver, Toronto, Montreal, and Ottawa – four of the six lowest downtown office vacancy rates in North America[6]
- Other downtown office markets such as Calgary have faced major fundamental headwinds that have led to high vacancy and limited demand
- Another bifurcation that is currently occurring through the pandemic is the resiliency of suburban office markets
- Rising vacancy rates in both the direct and sublet space has resulted in downtown office market vacancy rates reaching 13.0% – only 1.0% lower than the national suburban office market[7]

Summary

Structural changes to office space requirements resulting from the COVID-19 pandemic remains to be seen; however, it is now more likely that employers are adapting more flexible work from home ("WFH") options for employees. The troubling trend of sublease space causing downtown office markets to see rises in overall vacancy rates to 13.0% as of Q4 2020, a 3.7% increase from Q1 2020[10], is a concern in the short-term. However, trends of major Canadian cities continuing to attract tech talent will likely remain in place in the long-term, possibly creating an investment opportunity.

Retail

- The retail sector has been one of worst performing during the COVID-19 pandemic
- This sector was re-defining itself as tenants were assessing the best model to operate under that could either deliver a better shopping experience or efficiently deliver their goods through e-commerce channels
- New forecasts anticipate that e-commerce sales penetration will increase 3.1% and hit 13.5% in Canada this year and 16.7% by 2024[8]
- Total national vacancy rate increased by 1.0% from year-end to 4.1% – one of the largest half-yearly increases on record[9]

Summary

Vacancy rates in the retail sector are expected to move up dramatically into 2021, leading to a decline in market rents. On the demand side, no less than 40 brands announced the closing of all their stores in Canada since March 2020 representing 1,100 stores that will close in 2021.[11] The fundamentals of the discretionary retail sector remain challenged in the short-term, but future repurposing for multi-residential densification or last-mile fulfillment centres is a trend to watch. In the intermediate-term, grocery-anchored defensive retail should outperform.

Mù - Sainte-Foy, Quebec - FPREIF II - Multiresidential

6. CBRE Q3 2020 – North. American Office & Industrial Report
7. Canada Quarterly Office and Industrial Statistics Q4 2020
8. Canada Retail Report Fall 2020
9. CoStar – Retail Report
10. Canada Quarterly Office and Industrial Statistics Q4 2020
11. CoStar - Canada Retail National Report

Multi-Residential

- The multi-residential sector experienced a 13.1% decline in units absorbed over 2020, leading to an increase of 0.1% in the national vacancy rate to 1.9%[12]
- Only 284,390 immigrants came to Canada in 2020 (-9.3% Y/Y)[13] due to the COVID-19 pandemic
- Canada aims to welcome 401,000 new permanent residents for 2021[14] – a major driver of rental demand
- The national vacancy rate is expected to peak in 2022 at 2.5% (+0.8% from current)[15]

Summary

The long-term prospects for this property type appear to be strong as lower interest rates for longer may continue to fuel higher Canadian home prices, leaving some with no choice but to rent, especially for newcomers. In addition, at the end of November 2020, the Canadian Real Estate Association ("CREA") reported 2.4 months of nationwide residential inventory, the lowest measure on record, highlighting the current demand for residential products.

LOOKING AHEAD

- Canadian real estate prospects remain relatively bright against the backdrop of a bleak, but likely improving Canadian economy
- Once travel restrictions are lifted and immigration resumes, Canada is likely to continue to attract more immigrants per year in the next decade than it had in the 2010s
- In a world where growth will be difficult to achieve due to aging demographics, Canada has an immigration tailwind that should help grow its population faster than other nations, leading to increased demand for Canadian real estate
- Future supply also remains relatively disciplined against past cycles; therefore, it should be met or exceeded by demand
- Canadian real estate likely to continue attracting foreign investor dollars and increasing percentage of pension plan allocations, which will bode well for values

FIERA REAL ESTATE

Michael Le Coche Director, Strategy and Research
Greg Martin Vice President, Strategy, Planning, and Analytics

info@fierarealestate.com

fierarealestate.com

12. CoStar Multi-Family National Report
13. Statista
14. Statistics Canada
15. CoStar – Multi-Residential Report