

# Canadian Real Estate Market Update

Q4 2021



## Canadian Economic Overview



According to Fiera Capital's base case economic scenario (Reflationary Recovery – 50% probability), the global economic recovery continues to grow at an above-trend pace through 2022, without the fear of an aggressive and destabilizing monetary policy tightening event. The global economic recovery lingers on, even in the wake of sporadic virus outbreaks. While COVID-19 dynamics weigh on activity in the near-term, the recovery ultimately resumes as the latest virus wave subsides, activity continues to normalize, and pent-up savings are unleashed. However, given the elevated levels of inflation present and the remote potential of further supply chain disruptions, a "stagflation" economic scenario now has been assigned a 40% probability of unfolding.

- The macroeconomic landscape continues to undergo a series of changes heading into 2022
- On the health front, risks have resurfaced given the emergence of new virus strains that are circulating globally
- In the third quarter, Canadian real gross domestic product ("GDP") rose 1.3%, driven by household spending and exports<sup>1</sup>
- The rebounding growth from the second quarter's contraction looks poised to continue as Canadian GDP increased in October (+0.8%) and November 2021 (preliminary estimate +0.3%)<sup>2</sup> ahead of the Omicron variant making news headlines
- These GDP figures benefitted from temporary easing of supply chain disruptions
- The unemployment rate was 5.9% in December 2021 – little changed from November; the rate was slightly above its pre-pandemic February 2020 level (5.7%) and within 0.5% of the record low of 5.4% observed in May 2019<sup>3</sup>
- Compensation of employees rose 2.9%, the largest increase since the second quarter of 2000, excluding the large rebound recorded in the third quarter of 2020
- Growth in professional and personal services accounted for almost half the overall increase in wages
- Canada's latest headline inflation rate for December 2021, as measured by the consumer price index ("CPI"), reached its highest reading since September 1991, increasing 4.8% from a year ago
- The current metric is elevated and looks to persist for some time as supply shortages stubbornly continue and aggregate demand remains supported by robust savings rates, record low interest rates, and elevated levels of fiscal spending
- Resultingly, it is implied in financial markets that the Bank of Canada will hike interest rates four times or 100 bps in 2022 to counter the inflationary pressure

1. [Statistics Canada](#)  
2. [Statistics Canada](#)  
3. [Statistics Canada](#)

# Canadian Real Estate Outlook



## Office<sup>4</sup>

- > According to CBRE, Canada's national office market experienced its first positive net absorption quarter since the start of the pandemic
- > The Q4 2021 figure was 1.7 million square feet of net absorption; however, the vacancy rate still experienced a minor uptick to 15.8% (+0.1% quarter-over-quarter ("Q/Q"))
- > Net absorption was highest in the Toronto, Vancouver, and Ottawa markets, where the delivery of new office towers with high levels of pre-leasing played a key role in boosting occupancy gains
- > In all, Canada recorded 2.4 million square feet of new supply in the fourth quarter, of which 70.0% was pre-leased upon completion
- > Continuing the trend from Q3 2021, total sublet vacancy declined for the second consecutive quarter nationally – vacant subleases now measure only 3.0% of inventory

### Summary

Encouragingly, overall Class 'A' rents held relatively steady at year end, increasing by 2.6% nationally year-over-year ("Y/Y") to \$23.96 per square foot. The long-term picture for this asset class continues to reveal itself slowly, but remains murky given the rolling lockdowns caused by the pandemic.



## Industrial<sup>5</sup>

- > After a year of record-breaking leasing activity, the national industrial availability rate fell below 2.0% for the first time and ended the year at 1.8%
- > Half of Canada's markets have effectively run out of industrial space with availability rates below 1.0% as of Q4 2021
- > Average asking net rental rates continue to rise, growing 10.9% Y/Y as rents push to new highs (\$10.47 per square foot) across most markets in Canada
- > Valuations for the primary markets of Vancouver, Toronto, and Montreal are exhibiting average sales prices of \$500, \$322 and \$206 per square foot, respectively
- > On the under construction front, there is 36.2 million square feet currently being built across Canada; however, this remains low relative to existing levels of inventory; 67.2% of this space is already pre-leased, with the remaining available space likely to be committed to shortly
- > Development is largely focused within Toronto, Vancouver and Calgary, or 72.5% of the national pipeline

### Summary

Development remains the only long-term solution; however, supply-chain disruptions, swelling construction timelines, and a lack of developable land mean that solutions will be a challenge. The current 36.2 million square feet of development pipeline will only increase existing inventory by 1.9%. As consistently reiterated, the Manager expects robust rental growth to continue in this sector to resolve the space shortage.

4. [CBRE Q4 2021 MarketView](#)

5. [CBRE Q4 2021 MarketView](#)



## Retail

- > The Canadian bricks-and-mortar retail sector continues to adapt and cope with the ongoing effects of the pandemic<sup>6</sup>
- > Ongoing capacity restraints for service-oriented retailers such as restaurants, together with reduced foot traffic for various indoor malls and main street retailers, continue to result in both store closure announcements and bankruptcies
- > Spending activity has been choppy, directly impacted by various lockdowns and restrictions across the country
- > Canadian retail sales increased 5.3% Y/Y in October 2021 – a positive indication
- > According to Statistics Canada, the elevated household savings rate has been falling over the last few quarters, but remains elevated at 11.0% in the third quarter, suggesting future spending power to come<sup>7</sup>
- > Second half of 2021 statistics are not yet available, but according to CBRE, the national under construction pipeline was 9.6 million square feet as at H1 2021; few projects are commencing immediately during this time of uncertainty
- > Mixed-use projects account for 74.8% of under construction nationally, with some markets like Toronto having nearly their entire active pipeline comprised of projects of this nature

### Summary

In the long-term, the Manager expects that e-commerce sales growth will continue to outpace bricks-and-mortar sales and will be very selective by considering only grocery or drug-anchored centres in strategic locations primed for re-development.



## Multi-Residential

- > The 2021 statistics are not yet available, but according to CMHC's 2020 Rental Market Report, among Canada's Census Metropolitan Areas ("CMAs"), 6.1% or 116,929 apartment units were in arrears out of a total universe of 1,912,290 units – representing approximately \$150 million in total rent in arrears or 0.6% of total expected rent<sup>8</sup>
- > Interestingly, Toronto CMA recorded the highest share of rent arrears in Canada – about 11.0% of all units reporting arrears in rent payments
- > The pandemic disproportionately affected lower paid workers in the hospitality and service
- > Rental market demand would have been weaker if not for the unprecedented levels of government financial support such as the Canada Emergency Response Benefit, Canada Recovery Benefit, and Employment Insurance benefits
- > The financial support allowed households whose incomes were adversely impacted by the pandemic to pay their rent and remain in their units
- > The overall CMAs vacancy rate rose to 3.2% at the end of 2020 (+1.2% Y/Y), but rental rates grew 3.6% Y/Y to an average of \$1,165 for 2-bedroom apartments<sup>9</sup>

### Summary

The long-term prospects for this property type appear to be strong with the likely scenario of lower interest rates for longer continuing to fuel higher Canadian home prices and a large cost of ownership versus rental gap. According to RBC Economics, recognizing that it needed to get immigration back on track, Canada was one of the few developed countries to increase immigration targets at the height of the pandemic. The new targets (400,000-plus newcomers in each of the next three years) would make up for 2020's shortfall.<sup>10</sup>

6. CoStar – Retail Report  
7. Koyfin  
8. CMHC 2020 Rental Market Report  
9. CMHC 2020 Rental Market Report  
10. RBC Economics



## LOOKING AHEAD

- > While spending activity may be curtailed by COVID-19 induced shutdowns in the first quarter, Canadian household spending should ultimately resume at a healthy pace given strong labour market conditions and an abundance of savings accumulated during the pandemic
- > Consistent with Fiera Capital's view, the base case economic scenario with a 50% probability over the immediate term is "Reflation" characterized by rising growth and elevated inflation
- > In a world where growth will be difficult to come by 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 real estate supply also remains relatively disciplined against past cycles; therefore, should be likely exceeded by demand
- > Given elevated global debt levels, interest rates are likely to remain relatively lower for longer despite higher than usual inflation (negative real interest rates)
- > Canadian real estate is likely to continue attracting foreign investor dollars and increasing its percentage allocation of domestic pension plans, boding well for values

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