COVID-19 | April 29, 2020

Impacts on Canadian Commercial Real Estate

30 Days and Counting

These are unprecedented times, as the impacts of COVID-19 continue to evolve at a rapid pace. We continue to take a close look at how this impacts the Canadian commercial real estate market. We are committed to you, our clients, and remain available for discussions and advice as your partners and wanted to offer our latest insights.

Economic Fallout | Government Response Measures | Commercial Real Estate Sector
Greater Toronto Area | Greater Vancouver Area | Greater Montreal Area | Alberta Markets
Greater Ottawa Area | Insights

The ripples of impact from COVID-19 are being felt around the globe. To find out what this means please visit our global resource centre.

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Economic Fallout

April 29, 2020 | Canada

As this unprecedented situation continues to rapidly evolve, Avison Young's briefing notes are intended to provide an up-to-date assessment of the impact on the commercial real estate market.

Period covered: Mid-March to Mid-April 2020

The chapter on the impact of COVID-19 on the Canadian economy is yet to be written, but the initial impact is profound and without precedent. Meanwhile, government intervention at all levels (via massive fiscal and social distancing measures) to curb the spread ("flatten the curve") of the coronavirus has caused an abrupt disruption in business operations (other than those deemed essential services), resulting in the direct or temporary loss of employment and a shift to working from home (WFH). This has prompted an initial and significant spike in job losses and a decline in economic output, the full extent of which is yet to be measured.

Some of the Canada-wide economic impacts of the pandemic and response measures include:

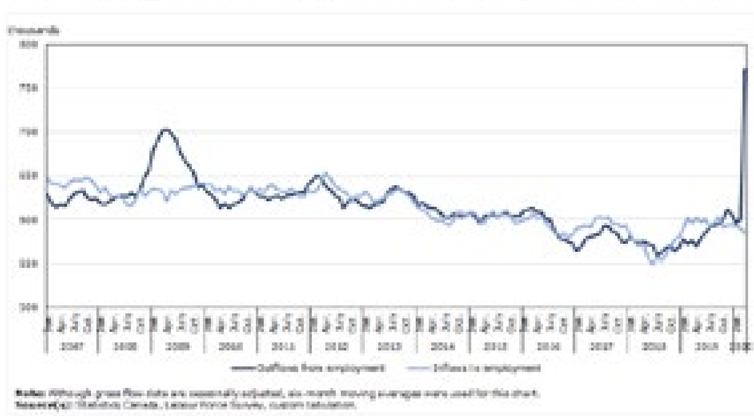
- More than 5 million Canadians had applied for all forms of federal emergency unemployment help since March 15th
- Canada's March 2020 labour market report showed that the country's employment dropped by 1,011,000, or 5.3%. Consequently, the unemployment rate jumped 2.2% to 7.8% in March from 5.6% in February – the largest monthly decline on record, going back to 1976 when comparable data was first tracked. The services sector suffered the brunt of the job losses, totaling 960,000; 300,000 jobs were lost in accommodation and food services
- March 2020 also registered a large drop in total hours worked (down 15.1%), led by declines in public-facing industries. Total hours worked declined in all provinces, led by Quebec (-18.9%). The reduction in total work hours was also more pronounced in the services-producing sector (-17.3%) than in the goods-producing sector (-8.3%)
- The latest figures (January 2020) from the Office of the Superintendent of Canada Bankruptcy showed that the total number of insolvencies (bankruptcies and proposals) across the country increased 8.7% in January 2020 compared with December 2019
- Canadian annual retail sales growth was just 1.6% in 2019 – the slowest since 2009. The latest figures from Statistics Canada, released April 21st, revealed February sales growth of only 0.3%, largely impacted by the rail blockade and only capturing the start of COVID-19 and social distancing measures
- According to a recent Bloomberg/Nanos reading, consumer confidence saw the largest weekly drop on record in late March. Some 55% of respondents now expect Canadian output to be weaker six months from now – the highest rating since the financial crisis began in 2008
- Manufacturing sales surprisingly rose 0.5% in February; however, the full brunt of closures in the sector due to reduced production will become apparent in March and April

- Statistics Canada reported that the value of Canadian building permits likely fell 23.2% year-over-year in March – Ontario, British Columbia, and Quebec had the strongest declines
- Headline inflation dropped 1.3% in March, mainly due to lower energy prices, which plunged 11.6% month-over-month
- Canadian oil prices have fallen further than during the last two price crashes and the view from economists is that the current market price suggests that it will stay below operating break-even costs for many projects well into 2021
- According to consulting firm Mercer, the average Canadian pension plan lost 8.7% of its value in Q1 2020
- Canada's economy contracted 9% in March, according to an estimate published by Statistics Canada on April 15th. The agency noted that the sharp decline is the most severe since the data series began in 1961. Consequently, the March result would drag growth down 2.6% in Q1 2020. However, Statistics Canada expects this estimate to change when the full March numbers are released in May
- According to Bloomberg's current consensus of economists' forecasts, Canada's real GDP is projected to drop 15.2% in Q2 2020 – the steepest decline since the Great Depression. This compares with a quarterly decline of 8.7% set in Q1 2009 during the 2008-2009 Financial Crisis
- On April 11th, the International Monetary Fund published global projections suggesting Canada's economy would shrink by 6.2% in 2020, before rebounding by 4.2% in 2021

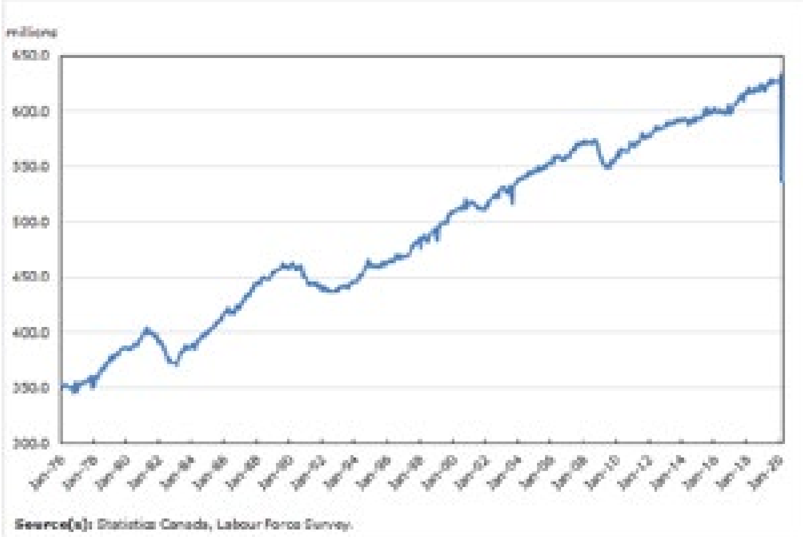
Magnitude of this unprecedented employment change compared with past shocks

Source(s): Table 14-10-0287-01 (formerly CANSIM table 282-0087)

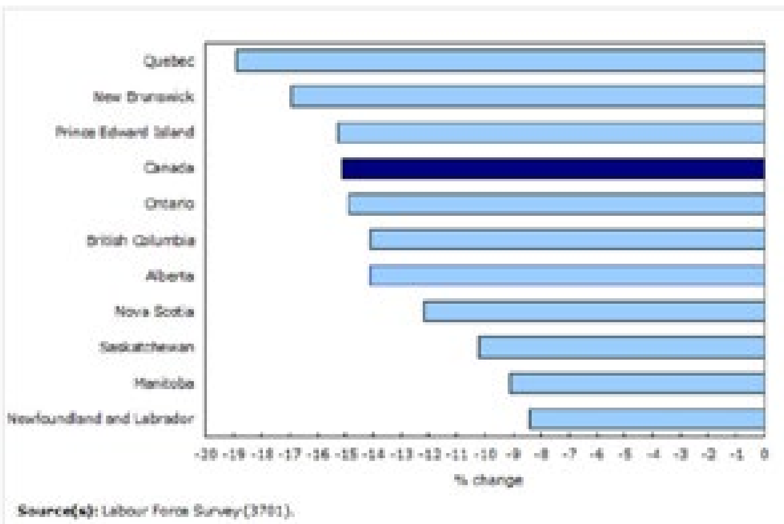
Employment inflows and outflows, Canada, six-month moving average, seasonally adjusted



Total hours worked, January 1976 to March 2020



Month-over-month change in total hours worked, March 2020



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Government Response Measures

April 29, 2020 | Canada

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Canadian Federal Government Response Measures

The Canadian Government has announced more than $260 billion (roughly 11% to 12% of GDP) in emergency spending, lending support and tax deferrals, while the Bank of Canada has adopted 'quantitative easing' measures for the first time – pouring more than $200 billion into the financial system. All these measures are intended to support affected workers and businesses.

Notable economic relief programs include:

- Canada Emergency Response Benefit (CERB) – provides a flat-payment benefit of $500 a week to Canadian residents who have lost their income for 14 days or more. The CERB is payable in four-week increments (i.e. payments of $2,000) and is available for the 16-week period from March 15th, 2020 to October 3rd, 2020
- Canada Emergency Wage Subsidy (CEWS) – established to encourage employers to retain and pay employees who are still on the payroll and to re-engage workers who had been previously laid off as a result of COVID-19. The CEWS will be in place for a 12-week qualifying period, retroactively from March 15th, 2020 to June 6th, 2020
- Canada Emergency Commercial Rent Assistance (CECRA) – a program that will provide forgivable loans (equivalent to 50% of three monthly rent payments that are payable by eligible small business tenants) to qualifying commercial property owners who agree to lower (by at least 75%) or forgo the rent of those tenants for the months of April (retroactive), May and June
- Canada Mortgage and Housing Corporation (CMHC) announced on March 26th the expansion of the Insured Mortgage Purchase Program (IMPP), through which the government (through CMHC) will purchase up to $150 billion of insured mortgage pools – up from the $50 billion announced on March 16th – ensuring continued lending to consumers and businesses

Meanwhile, attention has turned to what kind of recovery will take place from an event for which there is no precedent.

Likely recovery scenarios being discussed by economists include:

- **V-shaped recovery** – a quick decline, followed by an equally swift return to full economic health
- **U-shaped recovery** – business and social restrictions are extended into the summer and fall months, prolonging the recovery into the future
- **W-shaped recovery** – a tentative economic rebound, followed by a second wave of the pandemic in the fall or winter months (similar to the Double Dip Recession of 1980-82)
- **L-shaped recovery** – the persistence of the pandemic prevents an economic comeback before a vaccine can be mass-produced, and the economic fallout endures for years (similar to the Great Depression of 1929)

The silver lining in all this is that the massive fiscal stimulus programs put forth by all levels of government could potentially open the door to an economic recovery in late 2020 and early 2021.

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Commercial Real Estate Sector

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COVID-19 Impacts on Canada's Commercial Real Estate Sector

Pre-COVID-19, Canada's commercial real estate (CRE) sector was buoyed by solid market fundamentals (apart from in Alberta) and although uncertainty remained on the minds of occupiers and investors in the extended financial and real estate cycles, the view was that fundamentals would continue to outweigh fear, at least in the near term.

All that has changed, and will continue to change, daily. The consensus view is that the economic slowdown will test market fundamentals and certain asset classes are likely to prove more resilient than others across geographies. Details of the pandemic's impact on the country's major markets are summarized further below, but here are some of the broad national trends and observations for the main asset classes:

Office market observations

- Stakeholders expect vacancy rates to rise slowly and rental rate growth to moderate across most Canadian markets, albeit some of the best performing markets (Vancouver, Toronto and Montreal) will be coming off lower vacancy levels. In contrast, energy/oil-dependent markets, such as Calgary, will be hit the hardest
- The consensus is that class A buildings may be better insulated, given their institutional ownership structure and larger and better-capitalized tenant profile. Vacancy levels at these properties are expected to remain lower, rental rates to be more stable and enquiries for rent relief minimal. Rent relief requests may be greater among small-to-medium-sized tenants in class B and C buildings, resulting in upward pressure on vacancy and rental-rate growth to pause or even retreat
- COVID-19 has forced most businesses to adopt a temporary WFH strategy, which may curb office space demand in the near-to-medium term. In the long term, we may see a more distributed workforce and a modified workplace incorporating social distancing measures. The jury is still out, but the initial consensus is that this will have a material impact on office fundamentals
- Construction activity has stopped in most instances. This has significant repercussions on existing and new product (especially in tight markets like Toronto and Vancouver). Some tenants that were expected to move into new product have already asked for lease extensions, while backfill space in some circumstances has already been leased
- In contrast, the cease in construction in provinces where construction was halted will give some vacancy-laden markets more time to absorb existing and new inventory

- While companies had been aggressively looking to reduce their office space and have employees working closer together in fewer and smaller offices, they are now seriously rethinking that strategy, given the social distancing needed to avoid the spread of COVID-19
- Meanwhile, much of the conversation around working through the COVID-19 pandemic has already started to shift from working from home to returning to the workplace, but that return will need to fall within federal, provincial and health guidelines

Industrial market observations

- The near-term consensus is that tight market conditions should provide some protection for the industrial sector. Short-term impacts within the sector will vary depending on the property type and tenant mix, with larger-scale assets involved in (or supporting) e-commerce via distribution centres / warehouses being the best-insulated
- A disruption in the supply chain has emerged due to the acceleration of e-commerce sales. As a result, organizations are finding that they will likely need to adjust to larger inventory levels to meet consumer demand
- With the prospect of more physical store closures, pressure will build for more efficient fulfillment and last-mile delivery strategies
- In the near term, the view among REIT analysts and stakeholders is that industrial assets with greater exposure to smaller tenants and those generally more sensitive to broader economic activity (and thus more likely to face financial stress and seek rent deferrals/abatement) are more vulnerable, compared with those with larger tenants and with greater exposure to the distribution and logistics side of the business
- Pre-COVID-19, industrial assets – especially those for logistics and distribution – were in high demand and the consensus among stakeholders is that investor demand will not subside, keeping valuations relatively firm
- Relatively tight market conditions going into the crisis mean that increasing availability of space will put limited downward pressure on rental rates in most markets

Retail market observations

- The retail sector has emerged as the most vulnerable asset class during the COVID-19 crisis, with long-lasting impacts. Even before the arrival of the pandemic, the retail sector was anything but stable and was being approached with caution as the long-term implications of e-commerce continued to play out
- Canada posted annual sales growth of just 1.6% in 2019 – the slowest since 2009 – and the pandemic has had a swift and painful impact on the retail sector, with all but the most essential retailers forced to close, or operate at significantly reduced capacity, impairing retailers' financial positions and ability to pay rent
- Though "mom-and-pop" / small businesses are heavily impacted, large, national retailers find themselves in the same predicament
- To date, many retailers are preoccupied with asking for rent abatement or deferrals, which is clearly impacting retail landlords' cash flows. The impact is greatest on smaller, non-essential retailers, especially in secondary and tertiary markets
- Essential-service-based retail portfolios with a higher proportion of grocery-anchored shopping centres, larger grocers or food-related distributions centres in Canada's largest markets are expected to perform well on a relative basis. (Examples include Shoppers Drug Mart, Loblaw, Metro and Sobeys)
- Major grocery chains have gone on a massive hiring spree to meet surging demand, while giving front-line workers a raise

- Some of the largest retail REITs introduced Small Business Support Programs, which immediately make funding available to qualified small-business tenants within their portfolios – the relief will come in the form of lease amendments that defer rent over a specified period of time
- Discussions are starting to focus on the longer-term structural damage as businesses (both essential and non-essential) will not be able to operate under the same margins, possibly forcing some retailers to close permanently, and leading to a rise in vacancy across the sector
- Canadian retailers are stepping up to deal with the pandemic. Retailers Canada Goose, Eddie Bauer and Fanatics began shifting production in their factories to produce medical gear for health-care workers and patients across Canada

Multi-Residential market observations

- The consensus is that the multi-residential sector should prove to be one of the more resilient asset classes, next to industrial / logistics
- Fundamentals in most Canadian markets have been extremely healthy and the view is that the negative impact on occupancy, rental growth and bad debt expenses will be short-lived and have little impact on property values. However, the drop in the price of oil is expected to put additional pressure on rental fundamentals, especially in Alberta, resulting in a rise in rental incentives and vacancy
- As reported by some of the REIT analysts based on their discussions with major apartment landlords across the country, rent collections through the month of April are approximately in line with historical levels (within 3%), while rent deferment requests by residential tenants have been limited (2% or less), and are similar with the rent collected under normal circumstances by that time of the month
- Key areas of contention and/or concern within the sector include bad debt expenses and the eviction process. The view from stakeholders is that bad debt expense will rise across the sector, although from a very low base (approximately less than 1% of total revenue)
- Depending on the backlog already in the system, and given the temporary suspension of evictions, the time required for landlords to evict tenants will likely be extended beyond the average three- to six-month time period

Investment market observations

- Large institutional investors are focusing on how they properly mark-to-market the value of their assets and with appraisals now being prepared monthly (vs. quarterly) and containing non-reliance provisions, a lot of investors will scrutinize their assets more carefully
- Transactional activity is limited in the near term (with deals paused altogether or due diligence periods extended), making it difficult to estimate changes in cap rates
- The discussion around cap rates is that they may reflect lower rental growth and wider credit spreads. However, valuation clarity will return only when sufficient trades are taking place to justify cap rate direction with any confidence
- Meanwhile, more frequent (monthly vs. quarterly) valuations will be the norm in the short-to-medium term
- Investors will be prudently selective and disciplined in their acquisition approach
- Liquidity is critical and the low-interest-rate environment being extended bodes well for real estate in the long term

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Greater Toronto Area

April 29, 2020 | Canada

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Period covered: Mid-March to Mid-April 2020

General trends, news and market observations

- The City of Toronto declared a State of Emergency on March 23rd
- Toronto also began offering a 60-day grace period for payment of property tax and utility bills, with the Mayor also calling on commercial and residential landlords to allow rent payment deferrals
- Ontario lowered electricity rates for the duration of the crisis starting March 24th
- The Ontario government mandated the closure of all non-essential workplaces effective March 25th (the list of business closures was expanded further on April 3rd, with residential construction sites among the additional workplaces shut down)
- As of April 6th, City of Toronto staff began reviewing building permit applications while working remotely (the system had been suspended since March 16th)
- In the west end of the GTA, both Mississauga and Brampton announced resources to help support businesses
- The City of Mississauga announced temporary lay-offs of approximately 2,000 staff effective April 17th in response to the extended closure of city facilities, public counters and programs
- Tour activity is virtually non-existent as a result of imposed social distancing regulations
- City of Toronto development applications have come to a complete halt through the first two weeks of April. Over an 8 week period, the highest number of submissions occurred in late February with 11 applications during the 2-week period. As COVID-19 started to affect business and government in March, there was a rapid downturn, and no development submissions were processed from March 30th through April 17th
- GO Transit (regional rail network) ridership is down 90% due to COVID-19, indicating the number of downtown workers currently working from home
- For the TTC, the COVID-19 pandemic has resulted in an 85% drop in ridership and a loss of $90 million in monthly revenue
- Landlord clients reported that a range of 10% to 60% of tenants did not pay April 1st rent (60% was the extreme and represented retail tenants)
- Tenants should consider all government aid programs available to them prior to turning to their landlords with requests for rent relief or abatement. Legal counsels should be well-suited to assist with the application process

- Some building owners are moving from quarterly to monthly valuations of assets to keep pace with change in the market – while other appraisals have been put on "pause"
- Leases are now incorporating revised "Delay" language to account for further COVID-19 /Government regulation delays
- Various landlords are reviewing Force Majeure clauses to confirm if delay in permit process or tenants being deemed "not an essential service" are grounds for Force Majeure
- Business interruption clauses also being reviewed
- Legal ramifications around all these clauses should be discussed with legal counsel
- Some landlords are looking at virtual tours as a way to keep things moving
- After several weeks in an initial "transition" phase, many aspects of the CRE business now appear to be entering a "holding" phase where all activity is paused
- As yet, it's too early to assess the short- and medium-term impacts on the CRE sector
- Landlords continue to consider rent deferrals (especially for smaller tenants) where conditions are met, but not rent abatements. Nevertheless, some large corporations are asking landlords for reductions in rent
- Some tenants are taking the opportunity to negotiate blend-and-extend deals to add to their lease term at a reduced cost

Office market observations

- Major downtown Toronto office landlords reported that at least 85% of tenants made their April payment
- Landlords are thoroughly assessing the risk profile of their tenancies and dealing with requests on a tenant-by-tenant basis
- Some downtown landlords are open to considering rent deferral, but not rent abatement
- Landlords are indicating they will cash in Letters of Credit on hand to cover any rent defaults and expect to be made good again if drawn down
- Non-Disclosure Agreements being requested to be executed by Tenants as part of any rent relief discussion/ settlement
- Most landlords are not looking to put tenants into default under the lease for missed rent payment at this early stage of the pandemic
- Many landlords have passed on the ability to defer payment of monthly realty taxes to their tenants
- Landlords are trying to be empathetic, but they also have business to run and will require hard data to support rent relief – recent financial statements, tenant strategic plans (layoffs, executive compensation reduction, etc.), status of Lines of Credit and bank accounts
- Landlords of AAA buildings feel they are unlikely to be impacted as much compared to class B and C buildings due to the financial strength and covenants of their tenant mix
- In most cases, downtown landlords are holding firm on "pre-COVID" asking rental rates for now – though some are willing to come off slightly on pricing if it means securing a deal for 2020 cash flow
- Some landlords reported that tenants have requested short-term extensions before they move into new premises scheduled for completion in the coming months

- Co-working providers are struggling, but are also working with clients to develop diversified workplace strategies, mobility programs and business continuity plans
- Numerous sublease opportunities are coming to market – but not actually being marketed yet due to the impossibility of touring space
- Major downtown landlords are saying they are prepared to hang on through the end of the year without dropping asking rental rates – even if no deals get done
- However, some landlords are looking to secure quality tenants now to get ahead of a potential lull in demand amid delivery of new construction and increased vacancy in 2021
- Landlords are saying that in the future, they may attract and retain tenants with the health, safety and security features of their buildings - differentiating themselves by promoting their advantages
- When employees begin returning to work, companies may bring fewer employees into the same space or need more space to allow distance between employees. Companies may also seek to establish more satellite locations to reduce employees' exposure to transit, allow more distance between staff, and create operational flexibility
- Office furniture orders will be filled for essential workplaces first. Other industries need to put their orders in now, so they are not delayed for a long time when construction restarts

Industrial market observations

- Landlords with small- and mid-bay industrial spaces may see tenants seeking to defer rent payments or even some going out of business. Many of these tenants' rents have doubled in the past two years and constant cash flow is needed to stay afloat
- 85% to 90% of industrial users paid rents for April 1st
- Industrial users connected to e-commerce, such as logistics companies, are striving to keep pace with increased demand resulting from the lockdown
- Trailer storage demand is increasing. Food users are the primary drivers of demand
- As of April 3rd, most industrial construction sites in Ontario have been shut down by the provincial regulations
- Some landlords are looking at discounting Year One rents and making up the different toward the end of lease terms (for new lease transactions)
- Large landlords report doing more blend-and-extend deals than usual since the beginning of the pandemic
- Stocking for just-in-time delivery is shifting to a 60- to 90-day supply (which will require three times the warehousing space compared with current systems)
- There is a 30-90 day hold on many deals that were in progress, while a few deals on the go have been cancelled
- Some tenants are moving forward with industrial lease negotiations, with pricing not significantly impacted as yet. A lot of companies are discussing what the return to work looks like

Retail market observations

- Major malls in the GTA (Toronto Eaton Centre, Sherway Gardens, Square One, etc.) are closed. Essential businesses remain open, but access to the malls is restricted
- E-commerce, grocery and food-anchored/essential-service anchored outlets are doing well, but not shopping malls. Centres with higher proportion of mom-and-pop retailers (as opposed to major chains) are the hardest-hit
- Meanwhile, some retailers have adjusted their production to aid in the supply of PPE. For example, Canada Goose began shifting its factories to production of medical gear for health-care workers and patients across Canada
- Some retail tenants have sought to have their security deposits applied in lieu of rent payment
- Landlords are considering many factors when it comes to handling tenant rent deferral or abatement requests, including: credit history, past tenancy history, risk exposure, and more
- Some landlords have said they will allow for April and May rent deferral and spread that over the balance of 2020 – with full repayment due by end of 2020
- Some retailers are focusing on their e-commerce platforms and providing incentives to shop online
- Others are offering free no-contact delivery
- Empire Co. Ltd. (owners of Sobeys and Safeway grocery chains) has accelerated the launch of its home-delivery service in the Greater Toronto Area
- Landlords are expecting May and June rental receipts to be considerably lower than April's
- Landlords with spaces in new-build projects are still holding firm on asking rents for now
- Landlords are also using this situation as an opportunity to evaluate tenant quality and mix in their assets
- Retailers and fitness providers are considering how they will operate when the lockdown is relaxed. They will need to have procedures in place to keep patrons safe but will not want to make them onerous or uncomfortable, which would discourage customers. They must find the right balance of consumer confidence and comfort

Multi-Residential market observations

- Residential construction projects were initially (March 25th) deemed essential businesses and allowed to stay open in Ontario, but were later (April 3rd) shut down
- The risk to building residents led some Toronto condo corporations to ban AirBNBs from operating in their buildings during the crisis
- Three downtown Toronto residential condo projects by developer Cresford Group went into receivership at the end of March, partly affected by restrictions on construction trades and availability of funding
- April rent collections were strong, but owners are waiting to see what May rent collections look like
- Rent deferrals are not expected to be close to those of other assets classes. Received payments are expected to be in 90% to 99% range, depending on GTA building location

- New rental rates seem to be flat or down from peaks, but nobody is moving units
- Capital markets remain tight and not a lot of trading can occur until such time as social distancing policies are relaxed. However, strong demand from investors is expected to persist, given ongoing activity and offers – in some cases above guidance pricing

Investment market observations

- Many investors with capital are looking for opportunistic acquisitions
- Most major listings are on hold, select listings still being worked on and brought to market
- Debt markets are stabilizing rates, but with significant risk premiums on the spreads. Expect cost-effective debt once rent rolls can be more accurately underwritten
- Landlords are assessing cash flows and looking at tenant risk profiles more closely. All eyes will be on May and June receipts
- With touring properties difficult and consultants working from home, normal due diligence process is taking much longer
- A number of transactions in progress have closed, while others have been put on hold. Many transactions without committed funds are unwinding, however
- There is strong interest from buyers generally, although difficulty in closing the bid-ask spread will remain for the short term
- One REIT is building in 0% inflation through 2022 in their financial modeling as they consider acquisitions
- Investors are looking to put more money into industrial assets
- Sentiment among lenders is that they are still hungry to place capital and fill their pipelines with new deals

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General trends, news and market observations

- The City of Vancouver declared a State of Emergency on March 19th, 2020
- The Province of British Columbia declared a State of Emergency on March 18th, 2020; on April 15th, the B.C. government extended the state of emergency by two additional weeks
- Effective March 19th, 2020 and until further notice, B.C.'s Chief Justice has suspended regular operations of the Supreme Court of British Columbia at all of its locations to protect the health and safety of court users and to help contain the spread of COVID-19. Courthouses remain open. However, in person registry services have been suspended until further notice. Counsel, parties, litigants and members of the public are strongly discouraged from attending courthouses unless personal attendance is absolutely necessary or unless the Court otherwise directs
- B.C. reducing majority of commercial property tax bills by average of 25% along with new measures to support local governments facing temporary revenue shortfalls, in measures announced April 16th, 2020
- British Columbia's unemployment rate grew to 7.2% in March, an increase of 2.2%, according to Statistics Canada; B.C. loses 132,000 jobs in March as pandemic takes toll
- City of Vancouver initially lays off 1,500 employees; approximately 300 additional City of Vancouver employees laid off since the start of April as an additional measure to reduce spending, the City of Vancouver has announced "compensation impacts" for management and non-unionized employees
- City of Delta lays off 500 employees; more than 2,000 employees laid off by City of Surrey; City of Coquitlam temporarily lays off 800 employees
- Vancouver city council to consider virtual public hearings for rezoning applications; Vancouver to allow virtual public involvement in council meetings and public hearings
- Temporary hospital at Vancouver Convention Centre established
- Just 3,000 passengers per day are now going through Vancouver International Airport: report
- BC Ferries to temporarily lay off up to 1,400 employees: report; BC Ferries ordered to limit ship capacities by 50%, conduct passenger health checks
- Regional transit authority, TransLink, losing $75 million every month, seeking emergency funding from governments; B.C. premier asking federal government to provide transit relief funding

- City of Vancouver asking for $200-million emergency grant from B.C. government

- A survey of more than 1,000 British Columbia businesses has found that nearly half of those which have remained open during the COVID-19 pandemic believed they could survive for no longer than three more months. The BC Chamber of Commerce, Greater Vancouver Board of Trade, Business Council of B.C. and other partners worked with the Mustel group to survey 1,284 businesses in April. About half of those still operating reported revenues had plunged at least 75% since the crisis began, while about two-thirds reported revenue declines of 50% or more. Temporarily closed businesses faced an equally dire future, with just 53% saying they expected to reopen, 38% unsure and eight per cent confirming permanent closure

- Effective April 17th, 2020, the Superintendent of Real Estate published Policy Statement 17, which will assist those affected by necessary COVID-19 pandemic response measures that have limited marketing activities and impacted developers' ability to obtain building permits and arrange financing commitments. Policy Statement 17 temporarily extends the nine-month early marketing periods set out in Policy Statements 5 and 6 to 12 months. Under Policy Statement 17: development property marketed under a disclosure statement filed under the Real Estate Development Marketing Act ("REDMA") from April 17th, 2020 to July 17th, 2020 can be marketed for a 12-month period if the disclosure includes applicable extended dates as required by Policy Statement 17; or development property marketed under a disclosure statement filed under REDMA from June 17th, 2019 to April 16th, 2020 can be marketed for a 12-month period if an amendment is filed and the disclosure includes applicable extended dates as required by Policy Statement 17

Office market observations

- Allied Properties REIT acquired the Landing, a 148,350-sf, class A heritage office building on the edge of Gastown

- Peterson Investments acquired Crestwood Corporate Centre, a large suburban office park

- No known delays in new office tower construction in Metro Vancouver

- Small office tenants are the most exposed and many are closing down and laying off workers and pausing/ending expansion efforts; small pockets of head lease/sublease space are likely to start emerging when businesses don't reopen

- Larger corporate office tenants are more business as usual and continuing on with plans; some are pausing but no cancellations yet

- Rent deferrals are not happening yet, particularly in large institutional office buildings; chain reactions are occurring when a tenant can't move from one space to another because moving services aren't available, which means the tenant that is supposed to backfill the space can't move from its space, and so on

- Landlords are thoroughly assessing the risk profile of their tenancies and dealing with requests on a tenant-by-tenant basis

- Office landlords expecting impact to happen over months not weeks as tenants start failing to pay rent after one, two, three months until they run out of capital and/or go bankrupt

- Formal deferrals not generally being entertained by large landlords; seeing some in small to mid-sized office buildings; landlords need to see demonstrated efforts by company to reduce costs by slashing salaries, reducing headcounts, ending dividends, and asking to see financials before agreeing to deferrals

- The potential impact of the rise of telecommuting/working from home on future demand for office space among office tenants who realize they don't need as much space may be leading some developers with new office towers early in the development process to slow down the process

- New lease deals remain paused with very little activity
- Landlords finding that some office tenants are taking advantage of the situation and landlords are implementing application procedures to determine eligibility for deferrals; mid to large office tenants are not panicking; smaller tenants are facing issues
- Office tenants with renewals in late 2020 or early 2021 have a dilemma; if they wait to see what comes available, they lose precious time, if they wait too long, they lose negotiating position
- Office requirements are changing and include existing plug and play space; people are not as interested in space that is under construction or under renovation due to potential delays; tenants want something they can see and move into without other possible delays
- More sublease space listings began to emerge in mid-April as tenants started looking at next steps
- Developers are looking at acquiring new sites; U.S. investors are looking at buying into development projects that may be cash-strapped
- Confidence and some optimism in the market returning even though most lease deals are paused; new leases have new clauses regarding occupancy, Force Majeure and business interruption
- Chain reactions continue to be an issue when one tenant is unable to vacate their premise when the lease has ended because they can't move into the next place or they can't get services to move them, which then backs up other tenants
- Landlords are now looking for more time to make decisions; new leasing activity remains very limited
- Office appears to be holding up as one of the stronger asset classes to date; however, more sublease opportunities are emerging while deal activity is limited primarily to renewals
- Increased late/non-payment of rent expected in May
- No known rental abatement to office tenants have been granted in Vancouver to date
- Upon reviewing financials, some landlords are discovering that many businesses were in poor shape even before the pandemic
- Deals are moving much more slowly and most remain renewals; some tenants have hit the pause button after starting the process and are reconsidering their size requirements due to lessons learned during work from home protocols
- Metro Vancouver's success with COVID-19 containment measures could lead to the city being seen as an attractive location for large employers who have confidence in its containment measures/strategies to keep their businesses operating and employees safe
- Some smaller lease/sublease deals are getting done, but tenants want the process to proceed slowly; however, most are open to forging ahead in good faith
- Some tenants have asked if landlords are reducing op costs because no one is in buildings, but landlords have indicated that increased sanitation costs are pushing ops costs up, not down
- Discussions continue as to whether or not demand will be reduced as people get used to working from home; on one hand, more space will be needed to accommodate social distancing requirements, but fewer people may be needed to work in the office as some employees continuing to work from home
- Landlords indicating a willingness to pass on any savings they receive from government to tenants
- Lease deals continue to get pushed further into the future but are being kept alive

- Some tenant groups are more actively starting to look for opportunistic situations
- Landlords are not coming off rents at all in Vancouver and they haven't given any indication that they will as vacancy remains very tight
- Sublease space is starting to come available mostly as a result of downsizing

Industrial market observations

- Initial requests for rent deferral/relief were common in early March; if granted, deferral of rent and amortization over balance of term seemed to be the most common solution. Some landlords are requesting a business case of why rent should be deferred, and requesting financials from tenants before agreeing to anything. Some landlords are granting rent deferral and extending the lease term
- Vancouver International Airport (YVR) says it is doing its best to support struggling businesses on Sea Island, while also ensuring it can continue essential airport operations. In an open letter to businesses on Sea Island, where YVR is located, Vancouver Airport Authority president and CEO Craig Richmond said the airport has introduced a payment deferral program to provide immediate support for its business partners on the island
- Some owner-occupiers selling off strata units in effort to capitalize their business; other owner/occupiers in buildings are looking at sale/leaseback arrangements in order to get capital out of premises to support business; estimated 85% to 90% of industrial users paid rent April 1st
- Some purchasers are asking to make payments in instalments instead of a single payment; deals are also being pushed; Force Majeure contract clauses are becoming more important
- New availabilities starting to emerge in the Tri-Cities and Fraser Valley
- Many municipalities still trying to process building/development permits and rezoning applications
- Discussions around rent remain front and centre with landlords/tenants; lease deals are being pushed
- Some industrial properties are coming back for lease/sublease/sale
- Tenants are asking more questions about paying rent in May and leasing activity remains slow
- Some businesses are trying to find an opportunity to get into the market because vacancy has been so tight
- New industrial development is continuing without interruption to date
- Small-bay leasing and sales have been relatively quiet
- Investors and users are still looking to buy industrial properties with land listings remaining active
- While sale deals continue being pushed into the future, they are often well subscribed with multiple bidders
- Small-bay tenants and owners continue to suffer the most with many deals on hold or cancelled; vacancy likely to rise, but will be mostly limited to small bay space
- Industrial land requirements continue to be active
- Questions/requests about rental abatement/deferral emerging in late April as many tenants who made rent in April see May as more challenging
- New deal activity remains slow with activity mainly focused on renewals
- Companies trying to conserve cash and putting less cash in deals is triggering renegotiations of deal terms
- Overall activity has picked up since mid-April and appears to be getting busier by the week

Retail market observations

- First Vancouver retailer officially put out of business by COVID-19 is Semperviva, a 25-year-old chain of yoga studios; four locations closed in Vancouver; rental rate increases in at least 2 locations effective Jan. 1, combined with a slow February and virtually no business in March with no likely relief in April or May; no number of job losses provided
- BC Restaurant and Food Services Association president Ian Tostenson says that at least 15% of restaurants will likely be put out of business by COVID-19; normally 6% of restaurants go out of business in a given year in B.C., he expects that to triple in 2020
- Second Vancouver retailer closure due to COVID-19: Steve Nash Fitness World shutters 26 locations; terminates all employees; does not plan to reopen and declares bankruptcy and seeks creditor protection owing $35 million
- Restaurants Canada estimates B.C. establishments will lose $2.9 billion over the next three months as the industry deal with closures, social-distancing and operational changes. The industry organization anticipates between 70,000 and 100,000 jobs will be lost in the months ahead
- 121,500 people have lost their jobs in the B.C. food service sector: survey
- Many tenants are requesting rent deferment/abatement, delayed possession/openings and extending fixturing periods
- Landlords are receiving rent deferment/abatement requests from tenants big and small, corporate stores and mom and pop operations, up to publicly traded entities; all asking for a minimum of 60 to 90 days rent deferment
- Many landlords are indicating openness to defer rents, in some cases, even offer rent abatement, but there has been very little certainty
- Retail landlords are prepared to work with retailers to a degree, but there is too much uncertainty and they need to see financials and understand how sales have been impacted. Once they see that and get an understanding of how this could turn out, they come to the table and come up with a resolution that is typically some form of rent deferment. Landlords are hoping there is a way to recoup those deferred payments
- May 2020 is a much bigger concern than April 2020 in terms of rent; 50% to 80% paid some amount of rent in April; come May that number could fall drastically after feeling a full month of the impact of COVID-19. Most retailers operated into third week of March before they saw significant change. May and June will likely be much worse than April was. Landlords recognize that
- Small retailers are facing the worst of it because landlords are having a challenging time differentiating who needs deferment or abatement
- Landlords are focusing on groups who come to the table and acknowledge they need help but also landlords want to be confident that groups they are giving consideration to are going to be there to pay them back
- Essential retailers like such as grocery and drug stores are faring very well with same store sales up year-over-year; retailers who had digital ordering/pickup/takeout systems in place and third-party delivery sorted are able to lean on that
- Fashion and full-service restaurants hardest hit
- Turnover dates are emerging as an issue. Landlords are ready to turn over space to tenants, but tenants can't take and don't want to take the space due to legitimate reasons such as not receiving their permits or they don't have their equipment. Landlords are adding in extra fixturing periods, or rent commencement gets delayed, but landlords want the unit occupied. In other circumstances, landlords have indicated the operator can open and pay rent on a percentage deal until back at full operation

Project management observations

- When landlords consider rental deferment/abatement; they are asking the following 1) checked their business insurance for insurance coverage, 2) applied for government programs such as wage subsidies and commercial tax relief
- Distressed properties will start to emerge; many smaller landlords were too leveraged and banks will call their loans
- Vancouver and Toronto could lead Canadian recovery because of tech and film industries
- There will be no CapEx in 2020 with cut backs on maintenance and renovations impacting contractors
- Table-service restaurants will take a long time to recover; some can shift to prepackaged meals, delivery and take out and get rid of the dining room altogether

Multi-Residential market observations

- B.C. announces moratorium on residential evictions and rental hikes on March 25th and announces a plan (BC-Temporary Rental Supplement) to provide renters with up to $500 per month paid direct to landlords
- 21-storey rental tower in downtown Vancouver's West End sold for $52 million
- Metro Vancouver's multi-family rental apartment market should ride out the COVID-19 crisis better than most of the commercial real estate industry
- Multi-family assets remain the most popular with investors followed by industrial; office is behind both and retail remains unknown
- Overall deal volume has slowed; hard to generate offers when buyers can't get into units or buildings
- Multi-family sales activity has slowed, but deals still happening
- Residential rental collection was high in April but will likely dip in May; B.C. government stepped up with BC-TRS; investors lining up for opportunistic deals, but there may not be a lot of multi-family deals to be had
- Some opportunistic tenants taking advantage and not paying rent
- New rental buildings with premium rents may be having more issues with rental delinquency and vacancy

Investment market observations

- President of B.C. Hotel Association says B.C. has approximately 60,000 employees working in more than 700 hotels and estimates that two-thirds of those people will be laid off. That number of employees only represents the hotel staff and not those working in the adjoining restaurants and pubs, which could also be affected by job losses. 30 hotels have already closed and a further 500 to 600 could be shut by the end of the month
- COVID-19 crisis has grounded Vancouver's high-flying hotel industry, dropping what were the highest occupancy rates in the country to single-digit levels for the first time: report
- Investment sales are almost at a standstill for assets greater than $10 to $15 million; a lot of wait-and-see, lots of requests for extensions, longer periods of due diligence
- Activity for assets under $15 million remains strong as buyers take advantage of low cost of capital; sales that had already started are either moving forward albeit with extensions or pauses

- Owner-occupiers divesting of assets to invest in business as institutions and REITs continue to try and underwrite assets in this new environment, but not making offers
- Lenders are either on the sidelines for deals right now, taking extensions, or walking away
- Everyone is on the sidelines monitoring the market; nobody is ready to make any moves until they get better understanding of where rents are going, how much rent is being paid and what interest rates will look like
- Multi-family and industrial remain favoured as well as office but no offers on office buildings are expected soon
- Lots of capital available but investors are taking their time at the moment and looking for that elusive distressed asset situation
- Distressed land sales will start to emerge as second-tier and third-tier borrowers are not getting refinanced
- There is lots of debt coming up that will not get renewed and will likely force asset sales
- Capital market activity remains slow with virtually all deals paused; some pitches being worked on but no new deals are being initiated; some activity in secondary markets, as well as for land assemblies
- Some developers are starting to look for distressed properties, particularly retail properties with heavy exposure, developers offering to buy up share of property to help capitalize the owners who may be struggling with no rents/heightened vacancy

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Greater Montreal Area

April 29, 2020 | Canada

As this unprecedented situation continues to rapidly evolve, Avison Young's briefing notes are intended to provide an up-to-date assessment of the impact on the commercial real estate market.

Period covered: Mid-March to Mid-April 2020

General trends, news and market observations

- On March 13th, the Province of Québec declared a public health emergency throughout the territory. The public health emergency was renewed on March 20th and 29th, as well as on April 7th and 15th, 2020
- The City of Montreal declared a State of Emergency on March 27th. On April 18th the city's executive committee voted to renew the emergency declaration until April 22nd. The state of emergency applies to the entire agglomerated city, which includes the demerged municipalities
- Hydro Québec put measures in place to help affected residential customers, including not cutting off power for nonpayment and not applying administration charges for unpaid bills until further notice. Residential customers can enter into an arrangement with Hydro Québec to defer payment
- On March 24th, the Government of Québec issued the 223-2020 ministerial order requiring the suspension of all workplace activities except for essential services, initially until April 13th, 2020 and then extended until May 4th. Companies that are able operate with employees working remotely were allowed to remain active

Considerations for Construction and Permits (APCHQ)

- As of April 20th, some workers in Quebec's residential construction industry were back on construction sites after the March 24th shutdown. Labourers and contractors returned to construction sites for residential projects expected to be ready by July 31st (a total of between 20,000 and 25,000 units)
- Construction companies have the obligation to implement new hygiene measures and must ensure that social distancing between workers is respected
- APCHQ (Association des professionnels de la construction et de l'habitation du Québec) has partnered with certain warehousing companies and hotel associations to offer solutions for households affected by delivery delays. These partnerships will allow them to find temporary housing and storage solutions
- Because sourcing certain products can be difficult due to supply chain complications, APCHQ prepared a directory of available suppliers in different regions to help construction professionals
- Other scopes of work currently authorized include emergency repairs or construction for security purposes, electricity, plumbing, rental equipment, landscaping and maintenance (including nurseries, garden centres and swimming pool centres) as well as the supply of services by real estate brokers (limited – see OACIQ below), land surveyors, building inspectors and appraisers

Considerations for Real Estate Brokerage (OACIQ)

- Since April 20th, the government authorizes real estate brokerage activities for priority real estate transactions, meaning those where the possession of the property is scheduled before July 31st, 2020 or those requiring relocation by July 31st, 2020
- New listings are forbidden by the OACIQ as of April 20th. Therefore, the new mandate process for virtual brokerage and for the partial marketing of a property is no longer in effect and can no longer be followed
- Real estate brokers must favour telecommuting by using various technological means and tools such as virtual visits, videoconferences, conference calls, electronic forms and electronic signature solutions
- Physical contact can only be made in exceptional situations (for instance, if the customer does not have access to technological tools). Property tours and pre-purchase inspections are the main professional acts • where contact with people is possible and require justification. Therefore, tour activity is virtually non-existent
- Other professionals acting in the context of a real estate transaction such as inspectors, chartered appraisers and land surveyors are subject to their own practice regulations. Brokers must inform any other stakeholder of the importance of respecting the directions from public authorities, including social distancing and applicable hygiene measures

General CRE trends, news and market observations

- Office, retail, and industrial tenants should consider all government aid programs available to them prior to turning to their landlords with requests for rent relief or abatement. However, they should be ready to justify requests and demonstrate detailed decreases in activity and revenues
- Landlords are reviewing Force Majeure and business interruption clauses. At this point, except in the case of a tenant whose access to a building would be strictly prohibited by the landlord lessor, it seems unlikely that the current crisis constitutes a Force Majeure that would justify the non-payment of rent
- A positive aspect is that the crisis could highlight certain economic and operational inefficiencies within organizations if they find they are basically capable of maintaining the levels of activity of customer satisfaction while operating virtually
- Many companies are setting up post-COVID-19 monitoring plans to address business continuity and changes once the situation starts getting back to normal
- It is still too early to assess the short- and medium-term impacts of the crisis on the CRE sector. The commercial real estate business now appears to be entering a “holding” phase where most activity is paused as companies wait and see, except for investment activity, which remained somewhat operational across most asset types over the past weeks
- More than half of local SMBs fear that they will not be able to pay rent without assistance programs. A recent CFIB survey revealed that out of 1,425 Quebec members, eight out of ten SMBs were partially or completely closed during the pandemic, and 55% of SMBs will not be able to fully pay without additional help in May, versus 37% in April

Office market observations

- Office users are seeking advice to identify the best solutions for their office space. Some are seeking to negotiate rent relief, others are temporarily suspending expansion projects, while some are already taking steps to reduce their occupied space

- Since rental obligations are the expense that most hurts service companies in the present situation, it is also the one that they will likely seek to reduce in the coming months. Therefore, several sublease opportunities are to be expected in the coming weeks once new mandates are allowed by the OACIQ
- Major office landlords reported that at least 85% to 90% of tenants made their April payment. Some downtown landlords are open to considering rent deferral, but not rent abatement. At this point, large landlords are reporting that most of the rent payment issues are coming from retail units within their office buildings and portfolios
- Landlords are thoroughly assessing the risk profile of their tenancies and dealing with requests on a tenant-by-tenant basis
- Class A buildings are unlikely to be as impacted as class B and C buildings due to the financial strength and covenants of their tenant mix
- In the longer term, telecommuting and changes that businesses and employees implemented during the crisis will only accelerate some trends already observable in the market, including flexible working practices in the service sector

Industrial market observations

- Several major industrial operators announced temporary layoffs, slowing down production and shutting down locations across the province, such as Uni-Sélect, Teck Resources and Olymel
- Aéroports de Montréal (ADM) has put the $2.5-billion expansion and renovation project for the Montréal-Trudeau International Airport on hold as the COVID-19 pandemic wiped out revenue sources for ADM
- Industrial construction sites have been shut down but are expected to reopen soon following the reopening of residential construction sites
- Canadian manufacturers are stepping up to deal with the pandemic. CAE recalled employees to produce respirators in Montreal
- There is an increasingly significant demand for trailer storage across the entire province, as well as for temporary exterior warehousing. These requests come from a wide range of industrial operators, including transportation companies, wholesale distributors and retailers, car rental companies, etc. Most of these requests are for short-term needs
- Depending on the type of industrial tenant, some local landlords have received 100% of rents for April, whereas some have received as little as 10% of rents
- There is a significant demand for rent payment deferrals, most of which are three-month payment deferrals payable over a six-month period following the crisis. This demand is mostly from industrial and retail users
- In order to justify and obtain rental payment deferrals and benefit from other support programs, industrial users must clearly demonstrate a decrease in activity and in revenues
- It is still too soon to determine the impact of the pandemic on the industrial market, particularly in terms of net rental rates and land values, because of Montreal's lack of industrial product available and historically low vacancy rates

Retail market observations

- All shopping centres (and businesses within) closed as of March 22nd, except for grocery and food stores, pharmacies and SAQ and SQDC branches as well as hardware stores
- With retail malls and non-essential services closed, a significant percentage of tenants are seeking rent relief and payment deferrals. Some retail tenants have sought to have their security deposits applied in lieu of rent payment
- Local retailers and restaurants are developing e-commerce platforms and providing online shopping alternatives with no-contact delivery
- There has been a marked interest in supporting local products and encouraging small, local retailers. The deglobalization trend may increase during the coming quarters as consumers develop new shopping habits focused on local products
- Short-term revenue strategies for non-essential retailers include the injection of cash flow into business by promoting gift cards, pre-order strategies and discounting underperforming stock. They also include extending payables, pausing standing orders with suppliers and reducing shipping costs

Multi-Residential market observations

- In Québec, about 14% of tenants had not paid their April rent in full as of April 6th, according to a survey by the Corporation des propriétaires immobiliers du Québec (CORPIQ). One in eight owners is unable to collect 40% or more of rents
- The Régie du logement (provincial housing agency) is closed at this time, which complicates the relationship between rental owners and tenants
- The Régie du logement is planning measures to help landlords collect unpaid rents being suspended until further notice by the government. Landlord associations are asking for help in return
- Regroupement des comités logement et associations de locataires du Québec (RCLALQ) is also requesting a program to relieve small landlords from their mortgage debt during the crisis
- Capital markets remain tight and not a lot of trading can occur until such time as social distancing policies are relaxed
- If maintained, the non-payment of rents would have serious repercussions on the Québec economy, where 38.7% of households are rental. According to Statistics Canada, the ownership rate has been historically low in Québec
- Even though investment activity remained somewhat operational, a lot of multi-residential investors prefer to "wait and see" before resuming transactions
- A lot of transactions will be put on hold, while landlords who have been deeply impacted by unpaid rents may abandon the pursuit of investment opportunities for the next little while

Investment market observations

- Many investors with capital are still looking for opportunistic acquisitions, even during the crisis. Most sale listings in the GMA are still being worked on at this time, and several negotiations are underway
- Unusually long delays are becoming the "new normal" for securing mortgage loans, with the increased volume of requests of all kinds made to lenders who are getting overwhelmed by the current situation

- An obstacle to lenders' decision-making processes is the underwriting and assessment of the market value of commercial buildings, as past assessments are no longer a reference for future values in this period of great economic uncertainty
- The analysis criteria no longer rely on capitalization rates and other performance indicators, but rather on a more detailed analysis of the quality of tenants in place and their resilience to the pandemic and the severe economic recession that is expected in the near term
- The halt on certain services deemed non-essential may hinder simple tasks such as accessing a building for inspection or appraisal purposes
- Interest from buyers remains strong, with a marked interest in terms of development sites and redevelopment opportunities

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Alberta Markets

April 29, 2020 | Canada

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Period covered: Mid-March to Mid-April 2020

General trends, news and market observations

- Alberta budget 'no longer valid,' says Toronto-based credit rating agency in downgrading province
- Calgary creates task force to help businesses affected by COVID-19 pandemic
- Alberta launches online one-time economic aid package tied to novel coronavirus
- COVID-19 brings on planning delay for Calgary's new downtown arena
- Calgary construction industry builds a plan to keep working through pandemic
- Calgary Chamber urges City Council to defer taxes
- Internal city document details grim financial impact of COVID-19 on non-profits, social services
- Alberta to face its 'worst contraction' ever, ATB chief economist warns
- Council votes to let Calgarians delay property tax payments during COVID-19 emergency
- Premier Kenney warns Alberta headed for 25% unemployment
- City of Calgary explores additional assistance programs amid COVID-19 pandemic, including deferral programs for: permit, business licensing, rent deferrals and relief, investments to support innovation and bridge funding for partners
- Alberta announces crisis relief measures for businesses and employees. Policies include freeze on increased property taxes for businesses and individuals
- Alberta's economy to contract by 10.5% this year with the unemployment rate to rise to 12%, according to TD Economics
- Alberta has experienced at least three major market declines in the last 40 years and recovered each time due to the resourcefulness and resilience of businesses
- Alberta's strength is in its energy resources and the significant amount of entrepreneurship, particularly in the budding tech sector

Office market observations

- Calgary, Canada's energy capital, is suffering from three separate phenomena: the pandemic, an oil crash and oversupply resulting from a building spree
- The market has started showing signs of a shift towards being a tenants' market as general demand decreases and groups start demanding more flexibility on space and lease rates
- While historic low energy prices have been less impactful to Edmonton than in Calgary, the impact has been felt in the entire Alberta office market
- Among firms who have been able to implement a remote working strategy, sublease space in Edmonton could increase if some realize they don't need to return to those spaces
- Sublease space likely will not be brought to market until Q2 or Q3, as it is too challenging to bring to market and likelihood of activity is low
- No movement on average asking rents yet, but expectations are going down
- Covenant is becoming increasingly important to landlords
- Landlords are approaching rent deferrals/abatement on a case-by-case basis
- Most companies have put a 60- to 90-day freeze on decisions regarding real estate
- Following 9/11, companies and society questioned if office buildings were safe and if they were an outdated concept of the past. This ended up not being the case. Things will change, but a new normal will be found

Industrial market observations

- Disruptions on the logistics side (supplies, materials, shipping) in Edmonton have decreased as reported by local groups, implying potential stabilization
- Industrial market is relatively busy. Deals are still getting done, they are just taking a bit longer
- Most companies have put a 60- to 90-day freeze on decisions regarding real estate
- Landlords are increasing their creativity in putting together deals as they would rather have deals than not
- Edmonton's industrial sector could feel the impact more as it relies more heavily on oil and gas, while Calgary is already seen as a major distribution hub for western Canada and its industrial market is less dependent on the energy sector

Retail market observations

- Retail was hit hard in April, though grocery store-anchored centres fared well
- Retailers scrambling to respond to a surge in e-commerce orders during pandemic
- Women in Need Society shuts down five Calgary thrift stores amid COVID-19
- Alberta's food service industry lost an estimated 95,000 jobs in March: Survey
- Calgary small businesses join forces to launch online sales, delivery portal amid coronavirus
- Landlords are approaching rent deferrals/abatement on a case-by-case basis

- Covenant is becoming increasingly important to landlords
- Some multi-location tenants, who were already searching to expand, are looking to secure additional locations as they become available
- Numerous restaurants are reporting decreases in overall sale revenues, but there is an uptick in some areas, such as curb-side pickup and delivery (25% to 30% reduction in sale revenues); customers are adjusting to a new normal and are utilizing online even more; when making future CRE decisions, delivery/curb side pickup will likely be a consideration
- Landlords have been willing to offer rent deferral/abatements as they look through a 60- to 90-day lens and look to solidify their cashflows by working collaboratively with tenants wherever possible; generally, the better capitalized the landlord is, the more flexible they are able to be
- Groups who already had plans to move to new/bigger space are generally going forward with those moves; however, there are a vast amount more extensions than there are new deals
- After having nearly five years of a landlord-centric market, the landscape is shifting in favour of tenants as some scramble to lock down good covenants by offering incentives and flexible rates

Multi-Residential market observations

- Calls for Alberta tenant protections grow during COVID-19 outbreak
- Premier Kenney announces eviction ban to protect renters in Alberta during COVID-19 pandemic
- Apartment building owners' thoughts turn to May rents
- Alberta backtracks on rental evictions; tenants can't be evicted until after April 30th, and landlords need to work with tenants to find solution
- Alberta Real Estate Association bans open houses in response to COVID-19
- Multi-residential landlords in Edmonton could be hit harder in May as more residents feel the impact of the pandemic
- Investment activity is stalled in Edmonton, leasing activity is reduced and vacancies will take longer to rent out; standard spring housing rush (from students all the way to home buyers) will likely not happen

Investment market observations

- Coronavirus means some Alberta hotels close; changes for those still open
- Many investors with capital are looking for opportunistic acquisitions in Calgary, with distressed properties top of mind
- However, there likely won't be as many distressed assets as the 1980s and 1990s. Debt is much cheaper, providing more ability to weather the storm
- Most major listings in Calgary are on hold, select listings still being worked on and brought to market
- Lenders placing greater focus on tenant covenant and security than before
- This is an opportunity to sell fundamental/value-based assets. Cost to buy is at or below net asset value
- Investment confidence in Alberta will wane given the continued uncertainty, particularly around the energy sector

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Greater Ottawa Area

April 29, 2020 | Canada

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Period covered: Mid-March to Mid-April 2020

General trends, news and market observations

- The city of Ottawa declared state of emergency on March 25th, and has closed public facilities and has suspended non-essential services, activities and programs until June 1st
- It is difficult to get permits and construction is on hold
- The Mayor of Ottawa, Jim Watson, advised all of the local bars and restaurants to close their doors to dine-in customers, citing concerns about the spread of the virus in public places
- The Ontario government mandated the closure of all non-essential workplaces effective March 25th (the list of business closures was expanded further on April 3rd, with residential construction sites among the additional workplaces shut down)
- Ontario schools are closed until at least May 4th and all non-essential businesses are closed and are being fined if they are found to be open
- The city of Ottawa asked businesses to make sure they protect themselves when temporarily closing their business to prevent the spread of COVID-19. There has been an increase of break-ins and robberies
- Via Rail has reduced its service between Ottawa-Toronto and Ottawa-Montreal
- Public transit authorities are scaling back service. Essential services such as waste collection continue
- Passenger traffic at the Ottawa airport has plummeted more than 90% since the COVID-19 pandemic began, officials said Friday April 3rd; adding they believe it could be years before volumes return to pre-crisis levels
- On April 1st, the Quebec government announced police would be deployed in the Outaouais region, aiming to limit "non-essential movements" between Ontario and Quebec in a bid to reduce the spread of COVID-19. Police were stationed at the bridge between Ottawa and Gatineau, Quebec and turned back 10% of vehicles during the first weekend

Office market observations

- Trades are continuing to go through. There are some delays with cheques or paperwork due to the adjustment of working from home
- Many transactions that are in the pipeline remain, but are on hold – while some have fallen apart due to the pandemic
- Landlords are very busy with clients looking for rent relief and lease or sublease changes, and are not always able to respond quickly to other matters such as offers for space
- Some companies in Ottawa received pushback from their head offices because they wanted their employees to work from home before the lockdown
- Other than lease renewals, the office market has become very quiet
- Some tenants are already looking to downsize; some landlords are not penalizing them because of the pandemic

Industrial market observations

- Trades are continuing to go through. There are some delays with cheques or paperwork due to the adjustment of working from home
- Tenants remain interested in available space opportunities
- Proposal activity also continues despite the situation
- When it comes to renewals, some tenants are wary of longer-term commitments and would prefer to renew for two years rather than five, if they can
- Potential tenants are scheduling tours for industrial properties and deals are still closing

Retail market observations

- Hobo Cannabis Company opened a 3,000-sf location in Ottawa's historic ByWard Market as planned in late March
- Ottawa's food service industry has lost approximately 21,000 full-time and part-time jobs due to COVID-19, estimates industry association Restaurants Canada
- Tenants remain interested in available space opportunities
- Many, many retail tenants are requesting rent deferrals. Activity is slowing down and there are few to no new deals as many are unsure of the impact of COVID-19 and the economy

Multi-Residential market observations

- The situation has created issues for providers of student housing – amid uncertainty as to when schools will open again, students cannot commit to a lease
- Local home builders were quick to close their model homes and sales offices to the public early in the crisis
- Trades are continuing to go through. There are some delays with cheques or paperwork due to the adjustment of working from home

Investment market observations

- Properties for sale continue to receive a lot of interest from potential buyers and some deals are still going through in the month of April
- Other deals are being terminated or having closings deferred
- Portfolios are being stress-tested
- Some land deals are falling through or being put on hold
- The market is eagerly anticipating the ban on non-essential construction being lifted to help get things moving again

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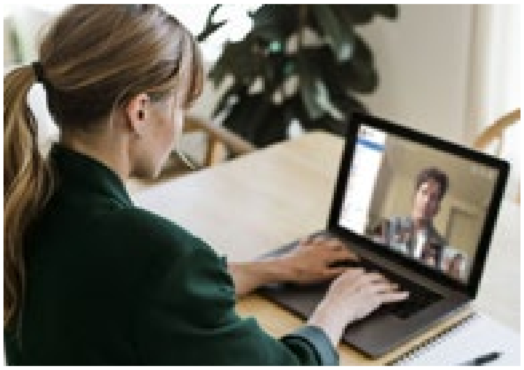
For more on the virus' potential #CRE impacts, read the latest briefings on our Global Avison Young Resource Centre:

Visit our Global Resource Centre

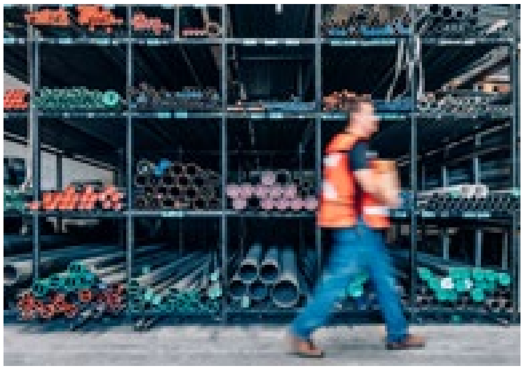


Can Flex Occupiers, Operators & Owners Look Too Far Into the Future?

April 7, 2020

While it is too early to predict the exact nature and duration of its long-term impact, there are certain areas that occupiers, operators and owners might consider to prepare for the longer-term impacts of COVID-19 in 2021 and beyond.

Learn more



Project Management Considerations Across the U.S. & Canada

April 2, 2020

COVID-19 has resulted in disruptions in the building process across most municipalities. See our most recent briefing to learn how this is impacting the U.S. and Canada as the industry navigates these challenges.

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Executive Summary: COVID-19 Impacts on Real Estate

March 20, 2020

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