COVID-19 | May 6, 2020

Impacts on Canadian Commercial Real Estate

The Next Phase

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.

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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Looking for last week's update?

Mid-March to Mid-April 2020

A Recession...

May 6, 2020 | Canada

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Period covered: Mid-April to April 30th, 2020

Heading into May and paying close attention to what is emerging elsewhere in the world, the discussion by all levels of government and businesses has entered the next phase – how to reopen the country and businesses. At the same time, commercial real estate stakeholders and businesses are trying to make sense of the myriad government programs.

A Recession…

On May 1st, the C.D. Howe Institute's Business Cycle Council (comprised of Canada's preeminent economists) released a statement that the country entered a recession in Q1 2020. The Council defines a recession as a "pronounced, persistent, and pervasive decline in aggregate economic activity". The think tank's decision to declare a recession following a February peak was based on preliminary data available as of April 30th with a thorough review of:

- Statistics Canada's release of estimated GDP data on April 15th that revealed a 9% drop in March GDP resulting in a quarterly drop of 2.6% – the largest one-quarter drop in GDP on record
- Labour force survey data that indicated a 1.5% drop in total employment in Q1 2020, with a 5.3% decline in March alone

The Council noted that even if GDP was to be revised to shift the impact of the peak month (February), it's calling for more contracting than expanding industries – thus the outcome would not be sufficient to change their recession call.

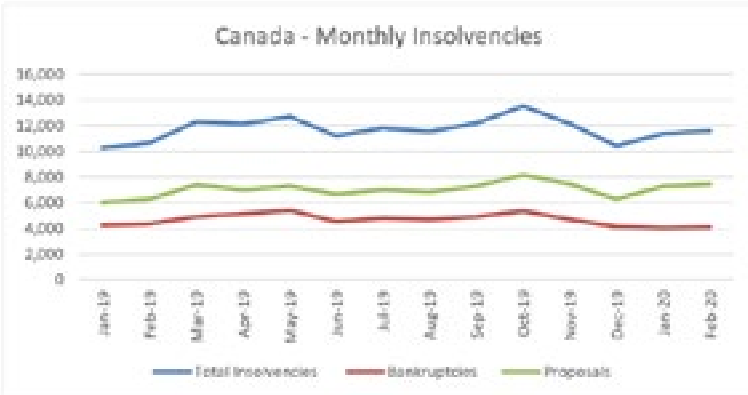
Canadian insolvencies

According to the Office of the Superintendent of Bankruptcy Canada, total insolvencies (bankruptcies and proposals) are on the rise.

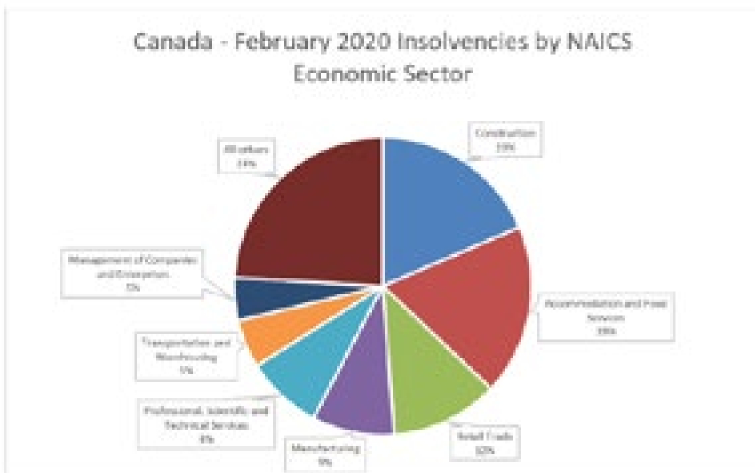
Although the impact of COVID-19 and the economic shutdown had yet to take effect across Canada in February – and March's results will likely make for starker reading – the total number of insolvencies (bankruptcies and proposals) in Canada increased by 2.1% in February 2020 compared with the previous month. Bankruptcies increased by 0.9% and proposals increased by 2.7%.

- The total number of insolvencies in February 2020 was 9% higher than in February 2019
- Consumer insolvencies increased 9.2% year-over-year to 11,251

- Business insolvencies increased 1.9% year-over-year to 324
- By province, the vast majority of February 2020 business insolvencies were in Quebec (171 / 75% of Canadian total) and Ontario (35 / 15%)
- By sector, the largest number of February 2020 business insolvencies were in Construction (60 / 19%), Accommodation & Food Services (60 / 19%) and Retail Trade (38 / 12%)



Information source: Office of the Superintendent of Bankruptcy Canada



Information source: Office of the Superintendent of Bankruptcy Canada

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Reopening the country

May 6, 2020 | Canada

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Reopening the country

The federal, provincial and territorial governments on April 28th jointly released "a set of common principles for restarting the Canadian economy" and have all agreed that, in advance of loosening their respective restrictions, each region is required to demonstrate that the guidelines/measures put in place are followed. The process also recognizes that each region will "take different steps at different times in order to ease restrictions, reflecting the specific circumstances in each jurisdiction."

The guiding principles have been based on experiences in other countries that have begun to reopen and on the advice of medical experts – all in an effort to lessen the risk of a second wave of the pandemic and avoid another shutdown.

Government criteria and measures include:

- COVID-19 transmission is controlled, so new cases are contained at a level that our health care system can manage
- Sufficient public health capacity is in place to test, trace, isolate, and control the spread of the virus
- Expanded health care capacity exists to support all needs, including COVID-19 and non-COVID-19 patients
- Supports are in place for vulnerable groups, communities, and key populations. This includes the protection of seniors, residents of group living facilities, workers in close quarters, homeless people, and Indigenous people and those living in remote locations, health care workers and other essential workers, and inmates
- Support and monitoring of workplace protocols are in place to keep Canadians safe at their jobs, and prevent the introduction and spread of COVID-19
- Restrictions on non-essential travel are eased and managed in a co-ordinated manner
- Communities are supported in managing local disease activity, including in child-care, schools, and public transportation, and industry and economic sectors are engaged to support the health of Canadians, reduced viral activity, and protection of the economy as it restarts

Early indications show a different timeline for the provincial and territorial governments to slowly reopen their economies. Meanwhile, certain restrictions remain in place.

Provincial restrictions as of April 30th

Province / Territory	Current Status	What's Open?	Can I Travel?	Remaining Restrictions
British Columbia	Closed	Many businesses were never ordered to close during the pandemic, although some chose to of their own volition	No	State of emergency public health orders remain in effect. Provincial parks remain closed
Alberta	Closed	All non-essential businesses remain closed	No	State of emergency public health orders remain in effect
Saskatchewan	Open	Phase I - reopen medical services such as dentists, optometrists and chiropractors and allow low-risk outdoor recreational actives including fishing, boating, golf courses and campgrounds starting May 15th. Retail stores and salon services will reopen on May 19th	No	Long-term restrictions will remain in place including school closures, visitor restrictions at some health-care facilities, travel restrictions and mandatory self-isolation orders. Public and private gatherings will still be capped at a maximum of 10 people
Manitoba	Considering	All non-essential businesses remain closed	No	State of emergency public health orders remain in effect
Ontario	Considering	All non-essential businesses remain closed	No	State of emergency public health orders remain in effect. Concerts and sporting events will be restricted for the foreseeable future
Quebec	Considering	All non-essential businesses remain closed	No	State of emergency public health orders remain in effect
Newfoundland & Labrador	Closed	All non-essential businesses remain closed	No	State of emergency public health orders remain in effect
New Brunswick	Open	Phase I – parks, beaches and golf courses have been reopened. Universities and colleges can open parts of their campuses for students in certain circumstances, and religious services can be held again as long as they are outdoors and people remain in their vehicles, two metres apart. Fishing and hunting are also allowed. Households can socialize again, but only with one other household	No	Large gatherings such as festivals and concerts are prohibited through December 31st, 2020, but that is subject to change. Restaurants remain closed except for delivery and takeout, and retail stores are closed as well
Nova Scotia	Closed	All non-essential businesses remain closed	No	State of emergency public health orders remain in effect
Prince Edward Island	Closed	Phase I – resuming elective surgeries, reopening medical services including physiotherapists, optometrists and chiropractors, construction services, and child care for essential service workers. Non-contact outdoor recreational activities such as hiking, cycling, golfing, shooting ranges, fishing and boating are also allowed	No	A ban on mass gatherings will be reviewed on an ongoing basis. Visitor restrictions remain in place at long-term care facilities. All non-essential businesses remain closed
Yukon	Closed	All non-essential businesses remain closed	No	State of emergency public health orders remain in effect
Northwest Territories	Closed	All non-essential businesses remain closed	No	State of emergency public health orders remain in effect
Nunavut	Closed	All non-essential businesses remain closed	No	State of emergency public health orders remain in effect

information source: CTVNews

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Commercial Real Estate Sector

May 6, 2020 | Canada

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

Commercial real estate activity remains muted as landlords and businesses continue to adjust. Though results varied by market and asset class (except retail), most landlords were somewhat encouraged with April's rent collection figures. However, the attention for many landlords has now turned to May rent collection.

More clarity needed…

Meanwhile, landlords and occupiers alike are also trying to make sense of the Canada Emergency Commercial Rent Assistance (CECRA) program, which was announced on April 24th and is summarized as follows:

- Administered by the Canada Mortgage and Housing Corporation (CMHC)
- Cost of "rent" for April, May, and June 2020 to be shared between tenant, landlord, and provincial/federal governments
- Breakdown:
  - Tenant: no more than 25%
  - Landlord: no less than 25%
  - Government: loan to cover the remaining 50%
- Landlord must agree to forego profit for three-month period (April to June 2020)
- Government loan is forgivable if all criteria are met
- Expected to be operational by mid-May 2020

Although the program was welcomed with open arms, concerned parties – mainly tenants and various business lobby groups – are questioning how effective it will be. For example, the Canadian Federation of Independent Business and its members have raised a number of concerns:

- Whether landlords will participate in the program – is it too landlord-friendly?
- Is the 70% revenue reduction threshold too high, excluding many businesses that have experienced a 50% or even 60% reduction?
- It doesn't apply to bigger companies and retailers paying $50,000 a month in rent

Other concerns with the program include its lack of a "force mechanism" to counter landlords' reluctance to participate, while The Fitness Industry Council of Canada argues that the program only covers single clubs and studios and does not address the need for a solution for regional and national organizations who have rent more than $50,000 per month.

On the other hand, landlords are seeking clarity as well, as they look to administer the program in an equitable manner to their tenants. Since the announcement, the landlord community has been inundated with inquiries from tenants about their intentions. The response, more often than not, has been that until the program has been formally approved and released, and many questions addressed, landlords cannot make changes to the agreements and arrangements currently instituted. Moreover, tenant rental obligations, unless otherwise specified in the landlord's rent deferral process for the month of May, remain and rent is due May 1st.

Some initial questions raised by landlords, tenants and their representatives include:

- How is rent defined? Does it refer to base rent or does it also apply to common area maintenance and property taxes?
- The program appears to favour only those landlords that have a mortgage on their property
- Do tenants who occupy multiple locations qualify?
- Would a tenant need to sign some type of declaration of decrease in revenue?
- Who is responsible for verifying the revenue claims – the tenant or landlord?
- Would a corporation with three locations (two of which have seen more than 70% reduction in revenues, and one of which has not) satisfy the eligibility requirement if the total reduction across all three locations is 50%?
- How does the program apply to subleases? Can a sublandlord apply for the program on behalf of a subtenant even if the head landlord does not participate? Are sublandlords able to apply if their subtenant is otherwise eligible?
- Is the 15% fee on management costs which is charged as part of additional rent considered profit?

Returning to the workplace…

The conversation around working through COVID-19 has shifted from working from home to returning to the place of employment. While many employers continue to follow all "stay-at-home" guidelines issued by local governments, many are now forming "return to workplace" committees to be ready when government restrictions are loosened.

The plans that many organizations are developing in this phase are informed by factors including:

- Evaluating the tools, resources and organization that workplaces will need to comply with health and safety guidelines and government regulations regarding social distancing and other return to work requirements
- Reviewing and updating policies around working from home, travel and rotating schedules

Some companies are collecting input from employees about their concerns and needs around coming back to work through questionnaires or surveys, evaluating the impact of various factors on their level of concern about returning to work. Some of the factors being evaluated include:

- Regular COVID-19 testing and temperature checks for suite and building occupants
- The use of mass transit and the viability of alternative means of getting to work
- Provision of PPE, hygiene and sanitization products in the workplace

- Increased sanitization, cleaning, air filtration and air quality monitoring in the premises and building
- Ongoing physical distancing in the workplace (2m/6’ rule)
- Workspace reconfiguration to increase spacing between desks and availability of private/isolated work areas
- Allocation of dedicated desks rather than hotelling
- Restrictions on meetings and other large gatherings
- Phased return to work to reduce workplace occupation density
- Staggered daily/weekly work times to reduce occupation density
- Restrictions around communal kitchens and food utilization

The return to work has already started in some parts of the world, with separate procedures for entering an office building and for once you are in the workspace. For example, in Asia, about half of KPMG’s staff have already transitioned back with returns scheduled by floor, and employees assigned staggered start times and working on different days of the week. Once in the workspace, employee movements are monitored using data from pass cards, while some desks and offices are cordoned off and meetings are limited to four people, who must each be two metres apart.

Closer to home, some of Canada’s biggest CRE owners are proactively working on physical distancing plans for elevators, lobbies, washrooms and other high-traffic common areas for the country’s urban skyscrapers that house thousands of employees. For example, Cadillac Fairview wants to ensure there are no more than three to four people in an elevator, while at its food courts, it intends to skip every other table or remove chairs to keep six feet between them and enforce spacing in queues for washrooms and restaurants.

Others, like Dream Office REIT, have indicated that they will stop the use of revolving doors across their properties (at least in the early stages) and keep other doors open during normal business hours, while limiting elevator passenger traffic to five at a time. The landlord is also ordering decals and stickers to mark where individuals have to stand for elevators and to direct one-way traffic across common spaces, as well as adding visible markers on lobby chairs and couches to label where people should sit.

Elsewhere, Toronto’s Financial District Business Improvement Area is assisting with putting into place consistent physical distancing rules for Toronto’s PATH, the vast sub-grade walkway connecting some of the city’s biggest office towers and six subway stations to more than 1,200 retailers. For escalators and staircases, plans call for signs that would direct people to use only every fourth step, while in narrower corridors, individuals would be expected to walk single file (with signage asking people not to pass others) to maintain physical distancing.

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Greater Toronto Area

May 6, 2020 | Canada

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General trends, news and market observations

- 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
- Landlords and property managers are upgrading operating plans to protect buildings and prepare them for re-occupancy
- After the initial transition phase, many aspects of the business appear to be entering a "holding" phase where all activity is paused
- 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 lease listings have been pulled off the market or agreements are not being renewed
- Some tenants are taking the opportunity to negotiate blend-and-extend deals to add to their lease term at a reduced cost
- Major landlords are advising their tenants that they are seeking greater clarity on the terms of the CECRA program in order to implement it correctly; as things stand, tenants' rental obligations for May 1st remain in place

Office market observations

- Oxford Properties-sponsored tech startup accelerator OneEleven announced it would close permanently in May as a result of COVID-19 impact – however, it was subsequently announced that after May 31st, OneEleven member companies will have the option to remain in the space, under new contractual arrangements with Oxford
- 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 in the next 18 to 24 months
- 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 want to establish more satellite locations to reduce employees' exposure to transit, allow more distance between staff, and create operational flexibility
- When planning for re-occupancy, employers must consider how work will be carried out to keep staff safe – staggered seating, face masks or other PPE, etc.
- Some tenants may not pick up their expansion options in new buildings under construction
- Tenants may emerge from this crisis feeling wary of making long (10-year) lease commitments and may put more value on flexibility
- Most lease deals done within the next 60 to 90 days are likely to be for built-out, ready-to-occupy space

Industrial market observations

- GM Canada plans to start producing a million face masks per month at its Oshawa plant (with 50 employees working two shifts)
- Multi-tenant landlords were hit hardest by missed payments on April 1st. One reported receiving only 30% of rents
- The slowdown of supply from factories in China is one of the biggest disruptions locally, affecting the retail, manufacturing and construction sectors
- 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). Short-term leases are expected to increase while companies look for temporary space for overflow product
- Co-warehousing is a trend that will become popular – due to the sub-1% vacancy rate in the GTA and the lack of new supply
- There is a 30- to 90-day hold on many deals that were in progress, while a few deals are 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
- The closure of industrial construction sites in Ontario will slow the completion of more than 9 msf that was expected to be completed in the GTA during 2020 and some of that will likely be pushed into 2021

Retail market observations

- Empire Co. Ltd. (owners of Sobeys and Safeway grocery chains) has accelerated the launch of its home-delivery service in the Greater Toronto Area
- LCBO has signaled to landlords that, while its stores currently remain open as essential services, it views the pandemic as an event of Force Majeure which could absolve it of lease requirements to remain in operation and pay rent
- Landlords are expecting May and June rental receipts to be considerably lower than April's – some mall owners reported collecting only 20% to 25% of rents in April, and expect this to fall to 5% to 10% in May
- Landlords with spaces in new-build projects are still holding firm on asking rents for now - this is expected to be the case at least through the summer as the market waits for the full impact of the lockdown to be known
- 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
- Many landlords are providing "gross rent deferrals" for the months they are closed. The time in which tenants must pay back the deferred rent ranges from end of 2020, to spreading the amount over the entire balance of the term. This doesn't necessarily help tenants as they will be opening and operating with much lower sales as the lockdown is gradually lifted so are unlikely to be able to pay even more rent than they typically do
- Some (not many) landlords are providing full abatements. For example, if a tenant is closed for three months, their rent would be fully abated for three months and the landlord would add three more months to the end of the lease term to make up the loss. However, not many are doing this because it doesn't solve the liquidity issue landlords have
- Some landlords are drawing on tenants' security deposits to help with liquidity – then the tenant will be required to top up the security deposit by a specified date. In effect, this is really just deferral
- Some landlords are asking tenants to come to them with a proposal of what they are able to pay and go from there. This is more of a custom solution based on an open-book policy

Multi-Residential market observations

- Good activity continues on listings, with properties still receiving numerous offers
- Strong demand is expected to persist once the crisis is over

Investment market observations

- A prominent 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 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; on April 28th, the B.C. government extended the State of Emergency by a further two weeks
- B.C. premier plans to announce reopening details the week of May 4th
- B.C. government has provided more details on how the Canada Emergency Commercial Rent Assistance (CECRA) program – announced April 24th by Canadian Prime Minister Justin Trudeau – will work locally. The program initially indicated the federal government will cover 50% of the rent with qualified landlords and tenants each picking up 25% of the remaining rent. A failure to provide enough details about the program has led to widespread confusion and numerous questions across Canada. (See more details related to the CECRA program in the Property Management and Retail sections of this summary.)
- The federal COVID-19 commercial rent-relief program will help a lot of small businesses but leaves cracks some firms will fall through and is too reliant on the co-operation of landlords, according to Metro Vancouver business owners and industry groups
- Payment of residential and commercial property taxes has been pushed back by more than two months by the City of Vancouver to help homeowners and businesses during the COVID-19 pandemic
- Vancouver mayor and council to take 10% salary reduction
- While the provincial government has yet to provide any estimates, a new analysis by RBC Economics currently tracks B.C.'s deficit this fiscal year at $5 billion, with a total revenue decline of 6% – about $3 billion. The provincial budget in February 2020 had projected a $227-million surplus
- Metro Vancouver mayors pushing for federal funding for B.C. cities and public transit
- TransLink's revenue problem will continue into 2021, with shortfalls of up to $885 million
- TransLink's latest ridership figures show new lows
- Vancouver Mayor Kennedy Stewart looking at film, tech industry to restart Vancouver's economy
- Smaller crews, higher costs face post-pandemic film industry

- Thousands of tree planters in B.C. will be screened for COVID-19 under new rules issued by B.C.'s provincial health officer as they prepare to travel to remote communities to start their work. The orders and guidelines cover the agriculture, aquaculture, forestry and resource industries, and set out prevention, control and inspection protocols for workers and their employers
- B.C. municipal officials, civic politicians and members of the legislature continue to discuss what returning to some semblance of normalcy looks like in government
- Metro Vancouverites favour government help for smaller B.C. tourism, service companies during pandemic

Office market observations

- Many office tenants and investors are suggesting that values have come off but there have been no reference points (sale/lease comps) to suggest that has happened yet
- Decision-making abilities of landlords and tenants continues to be restricted with turnaround times still much longer than previous, but tenants appear to be starting to make decisions with the tide of inaction beginning to turn
- Some developers are wanting to initiate marketing projects/properties more actively
- Co-working may be more resilient than initially thought; the workspaces will no longer be as dense as before, but the flexibility of term has been increasingly attractive
- Renewals continue and some small lease deals have proceeded but they have flexible commencement dates
- Small sublease spaces continue to come back to the market, but so far few, if any, spaces have actually been subleased although many ask if the space is for sublease because of COVID-19; some sublease options coming back are not being marketed yet because touring the space is not possible; the marketing of these spaces is likely to kick off once people can go back to the office
- Tenant and landlord questions abound regarding the federal government's proposed commercial rent assistance program, which has created a lot of issues in the market due to a lack of details

Industrial market observations

- Vancouver International Airport announced that it is laying off staff and has begun the process of offering voluntary departure packages to all of its 500 employees, who work in areas such as airport operations, finance, engineering, human resources, and administration
- YVR airport will trim 30% of workforce with suppressed travel in 2020: union
- B.C. government defers stumpage fees for forest sector
- More conversations around strategies to dealing with back to the workplace
- Metro Vancouver industrial lease and sale activity is starting to pick up even though things are still moving slowly
- Some landlords are considering how to deal with primarily small industrial tenants who may be unable to pay rent May 1st as more defaults are expected than in April
- Select office users looking at leasing industrial space with plans to build out office space inside because industrial lease rates are cheaper than office
- Industrial lease renewals proceeding along with active land listings with some interest in small-bay industrial strata emerging as well

- Inquiries on industrial listings are starting to increase as is tour activity
- Real estate departments of larger tenants want to proceed but are being held up by finance committees
- Mostly smaller industrial spaces for sublease starting to come back to market, although a 25,000-sf space, the largest known to date, has emerged
- Companies based in Eastern Canada appear to be behind B.C.-based companies in terms of readiness to move forward on real estate deals
- It had been increasingly difficult to find owners of industrial assets willing to sell, but COVID-19 could prove to be a trigger for some owners to sell as it marks a likely stabilization in prices at least in the short to mid term
- Rent deferrals have not been widely granted to industrial tenants to date, but some smaller industrial tenants have received them; no abatements are known to have been provided to industrial tenants
- Leasing/sale opportunities are most likely to emerge from landlords with portfolios of small-bay industrial units

Retail market observations

- Vancouver city councilor has proposed removing red tape for restaurant patios
- B.C. restaurants could be allowed to open their dining rooms as early as May, although the provincial government has made clear that any loosened restrictions will come from the provincial health officer
- B.C. will look to restaurants to innovate when it comes to reopening dining room service
- Food trucks are now being set up at multiple commercial truck stops in B.C. to support truckers
- Vancouver Farmers Markets released its 2020 summer season update, and six of the markets will be opening as essential services. The Riley Park, Trout Lake, Kitsilano, the West End, Mount Pleasant, and the Main St. Station Farmers Markets will be opening between May 2nd and June 3rd
- London Drugs is offering up shelf space to small businesses in Western Canada impacted by COVID-19
- Chocolate Arts has closed its doors after nearly three decades of business
- Retailers in B.C. face major changes to the shopping experience they offer when fashion boutiques reopen after the COVID-19 pandemic eases
- CECRA has caused disruption and frustration for both retail landlords and tenants because of the lack of clarity in how it will function and whether landlords will be motivated to make this application versus dealing with more deferment schedules like they had been until this point
- Where there is frustration is that some tenants that have either negotiated some form of rent deferment or were in the process of getting sign off on some form of rent deferment are now asking why they are agreeing to three months of deferment when they can get 75% of rent abated. As a result, tenants are now hesitating to agree to deferment
- Landlords are looking at the initial information to determine if or how they qualify for the CECRA; one qualification is they need have to have a mortgage because any funding that comes from the federal government doesn't get disbursed directly to the landlords
- The mortgage qualification poses issues for how larger institutional landlords' ownership is structured; there are multiple owners with multiple investors that all have their own financing in place; so how does an application get completed and qualify in that scenario?

- The CECRA appears to apply to basic rent, not gross rent
- From a landlords' perspective, are they more motivated to deal with a deferment and feel more confident that they are going to get that money back or go the route of making this application and forego the ability to go after their tenants for rent and rely on the federal government to pay?
- From tenants' perspective, a lot of corporate owners and even franchise groups are concerned that the requirement of a 70% reduction in revenue on account of COVID-19 may motivate some operators or franchisees, who are currently operating at a significant discount, to stop operating altogether in order to achieve a 70% decline. Franchisors are trying to encourage operators to open and find creative ways to drive revenues during this time, but does the CECRA motivate franchisees against doing that?
- If a landlord decides not to apply to CECRA, which is at their discretion, any of their tenants that have losses of more than 70% are not eligible
- The announcement of CECRA has disrupted deferment agreements made between March and the end of April for many retailers
- May rent from retailers is going to be more impacted than April after a full month of lockdown; there will be less and less rent paid the longer the lockdown continues
- Restaurants will likely be reopened in B.C. to some extent by the end of May but with new and strict measures in terms of operations and capacity; a stated percentage of what existing occupancy permits allow will likely be used to establish how many customers will be allowed in an establishment. But for how long and by how much are restaurants limited, are the next big questions
- There is a glimmer of optimism that we are now in the next phase, which is reopening the economy, but there is still a lot of uncertainty for everyone on what that looks like and how long that will take. Some sophisticated groups using modelling and analysis from other countries indicate that there could be a somewhat return to normalcy by the end of 2020. A majority of businesses would be operating but with different enhanced cleaning requirements that will likely persist in perpetuity, but limits on occupancy and hours of operations would be largely removed. However, the economic impact on people's disposable income is something that is going to linger on much longer than the lockdown or limitations on operations

Property management observations

- The proposed Canada Emergency Commercial Rent Assistance (CECRA) program, which would lower rent by 75% for small businesses that have been affected by COVID-19, has caused substantial confusion for landlords and tenants
- CECRA is optional for landlords to participate in. Some tenants may not understand that there is still a requirement for the landlord to abate 25% of the rent but abatement hasn't been a part of the equation to date. For the most part, most landlords have been willing to defer rent with payment over a period of time not abate rent
- Another problem is the program requires the landlord(s) to have a mortgage as the government's 50% contribution goes to the holder of the mortgage, not the landlords. Commercial properties without a mortgage don't qualify and that means tenants in those buildings can't access the program
- Tenants are also required to demonstrate a COVID-related decline in revenue of 70% to qualify for CECRA by providing their financials, which many tenants have been unwilling to provide to landlords to date during rent deferment/abatement negotiations. It is also unclear how tenants calculate the 70% decline
- For tenants willing to pay some or all of their rent, most landlords are willing to help as they are not only providing the space but maintaining service levels. Mortgage, taxes, HVAC and utilities continue to be paid as do increased security and janitorial costs
- Vancouver will likely not be impacted as badly as other cities with the economy expected to bounce back better than most thanks to its diversified economy with key drivers such as tech, film and the port combined with a very entrepreneurial mindset

Multi-Residential market observations

- While tenants struggle to pay their rent with limited relief from government, small landlords who rely on rental income to cover their own mortgage payments may also find themselves in a financial bind
- Activity for multi-residential assets remains steady as the market is still willing to do deals
- Pitches and valuations for multi-residential assets continue as pricing has so far remained largely consistent with previous transactions
- Investors are looking for discounts on multi-residential properties, but they have not yet appeared

Investment market observations

- Owners are starting to show more of a willingness to discuss a more realistic value of what their property is going to be worth in the future
- Rent collection on May 1st is a concern among all asset class owners with concerns that the amount of rent paid in May will be substantially less than April, especially owners with large exposure to retail
- Current valuation metrics are no different from how values were determined previously other than that fact that the value range will be larger range
- U.S. investors who had been becoming more interested in Vancouver are now looking back at the U.S. where there are more distressed assets
- Canadian institutions may still have some interest in acquiring industrial assets, but the acquisition of other asset classes is unlikely to occur until later in the back half of 2020
- Major speculative office developments in Canada by large institutional owners will likely been shelved for the time being due to a combination of uncertainty around demand and losses related to the battered performance of their retail portfolios
- Small investment deals – less than $15M – continue to attract offers
- Small retail sales – less than $10M – are transacting but require substantial concessions to get the deal done including but not limited to vendor financing, a long closing, price reductions and rental guarantees
- Hotels remain an asset that people are seeking to acquire in Vancouver

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Greater Montreal Area

May 6, 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-April to April 30th, 2020

General trends, news and market observations

- On April 28th, the Québec government presented its start-up plan. The construction, manufacturing and retail industries will be the first sectors to restart, while retailers outside of Montreal will be resuming operations May 4th, and retailers in Montreal will be resuming operations on May 11th
- Approximately 500,000 people, which represents almost half of the 1.2 million Québec workers currently laid off or furloughed, could resume work when the economy reopens
- The Québec start-up plan is expected to generate an orderly restart of economic activity with sufficient notice for companies to review their operational practices while taking serious health requirements into consideration, ensuring an adequate supply and planning employees' working hours in order to reduce the risk of a false start or a second wave
- With borders no closer to reopening and air transport decimated, the Chamber of Commerce and other organizations are urging Quebec to free up additional funds for tourism-driven industries such as hospitality, event and convention planning, etc.
- The City of Montreal set up sanitary corridors in order to make circulation safer for pedestrians and cyclists, with additional space allocated to cyclists and pedestrians resulting from the abolition of street-side parking. There are currently around twenty of these corridors in eight or nine boroughs of Montreal
- Businesses should inquire about available government assistance, grants, loans, deferrals, guarantees and training programs, to ensure they understand all the options offered at the moment
- Facing the explosion of online sales, struggling supply chains, evolving consumer needs and transformed payment methods, businesses, services and retailers will need to identify new or adapted business models

Considerations for Construction and Permits (APCHQ)

- Construction activity for public and transportation projects will resume on May 11th, as well as all construction activity for institutional, commercial and industrial projects
- All residential work that was not covered by the April 20th authorization will be able to resume, so labourers and contractors will return to construction sites for residential projects expected to be ready beyond July 31st
- In total, nearly 85,000 construction workers will be going back to work as of May 11th

Considerations for Real Estate Brokerage (OACIQ)

- Real estate brokerage activities allow the development of 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 remain forbidden by the OACIQ. 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

Office market observations

- Office users and companies will need to accelerate their technological improvements exponentially, implementing strategies that include crucial elements such as telecommuting, virtual management and videoconferencing to respect social distancing and evolving health requirements
- Propagation control will become a new priority in the office space as workers will not return to an office that does not feel safe. The layout of high-density offices, with extensive reliance on shared and flexible spaces, will need to be modified. Companies will need to reduce the number of surfaces employees have to touch throughout the day
- Organizations will have to begin reconfiguring the workplace with key principles in mind, such as reducing density, changing the layout and adding divisions
- The office environment will need to take specific emergency strategies into consideration, which will be based on the ability to adapt easily to possible economic, climate and health disruptions, with a focus on the well-being of workers

Industrial market observations

- Companies in the retail supply chain outside of Montreal territory will be resuming operations May 4th, and companies in Montreal will be resuming operations on May 11th. Companies in the construction supply chain will also be resuming operations on May 11th, as well as manufacturing companies. Staff will be gradually reinstated to promote physical distance, with a limited number of employees on the floor during the first two weeks
- The Ministry of the Economy has developed a formula to calculate the maximum number of workers allowed at the same time on the same site. Sites that already operate with 50 or fewer people per shift will not be restricted. Restrictions on the number of employees are scheduled to end on May 25th
- In total, more than 176,000 manufacturing workers will be reinstated
- Bombardier is recalling most of its 11,000 Canadian aviation and transportation employees that were furloughed because of the pandemic, as service activities will gradually resume as of May 11th. All employees whose physical presence is not required will be asked to work from home until further notice
- According to Manufacturiers et Exportateurs du Québec (MEQ) Director Véronique Proulx, the hiatus on the Quebec economy has been difficult for the province's manufacturers, while their competitors, customers and suppliers outside Quebec have not stopped their activities. Revenue losses from 20% to 50% are expected this year in the manufacturing sector. This is why it becomes essential that manufacturers can restart all their activities no later than May 25th, at the risk of causing irreversible and dramatic consequences for the manufacturing industry

- The aviation industry remains deeply impacted. Porter extended the suspension of all flights for four more weeks, Air Canada and Transat A.T. require further assistance from the Quebec government in order to survive the crisis, and Boeing confirmed that it will cut its global workforce by about 10%, while announcing that they believe it will take up to two or three years for things to go back to normal in the aviation industry
- It remains 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

- Only businesses with direct access to the outside will be allowed to reopen their doors to the public. Shopping centres remain closed. Retailers outside of Montreal territory will be resuming operations May 4th, and retailers in Montreal will be resuming operations on May 11th. Sunday closings remain in effect until May 31st
- 196,000 retail and retail supply chain workers will be returning to work between May 4th and May 11th
- Even as stores reopen, downtown retailers will face weaker demand as universities will remain closed, and many employers will still require their staff to work from home. Normally, 400,000 to 500,000 people work in Downtown, while about 100,000 students live in the area, according to an estimate by Destination Centre-Ville
- Companies in the restaurant industry, personal care services (hairdressing, aesthetics, etc.) and other select areas remain excluded from the economic de-confinement plan at this point. The procedures for reopening these sectors are still the subject of work and discussions between the public health authorities, CNESST and the ministries concerned, and the reopening dates of these sectors remain to be specified

Multi-Residential market observations

- Residential and multi-residential prices in the GMA could suffer their biggest drop in the past 50 years if business activity takes longer than six months to restart after the pandemic, with sustained job losses and reduced consumer confidence
- With the recent hiatus on construction activity, housing starts declined in the last few months, indicating the impact of the crisis on residential construction activity
- Multi-residential landlords are nervous to see the results from the rent collection for the month of May, as they were mostly pleasantly surprised by the month of April (95% to 99% was collected, in most cases)

Investment market observations

- At this point, all investment projects must be reviewed as forecasts are being revised, and the impact of new expenses, particularly related to new working conditions and supply, must be re-evaluated
- Property sales and new listings in Montreal and the GMA have shrunk since mid-March, and investment activity is generally slowing down across all asset classes. At this point, a few existing deals are closing, while a lot of transactions are on hold or falling through because of financing difficulties, and new deals are non-existent
- Transaction activity has fallen quite sharply; while Q1 totals were less affected, Q2 will be impacted by delays in deals closing and Q3 will be hit because only a few new transactions are being initiated now, especially with OACIQ's new directions
- Across all asset classes, investors seem to believe that the "wait-and-see" approach is probably the wisest thing to do until there is a clearer picture of the impact of the crisis on capital markets

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Greater Calgary Area

May 6, 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-April to April 30th, 2020

General trends, news and market observations

- Alberta is preparing to relaunch its economy within weeks as new provincial estimates suggest as few as 298 people will require hospitalization, including 95 in intensive care, when the COVID-19 pandemic reaches its peak, Premier Jason Kenney said Tuesday, April 28th
- Many people want to reignite Alberta's stalled economy by easing coronavirus lockdown measures, but outbreaks at three major Alberta work sites should indicate it is too soon to abandon steps designed to slow the spread of the virus and, ultimately, protect the public, experts say
- It's been nearly two months since the first case of COVID-19 was announced in Alberta. Alberta Chief Medical Officer for Health, Dr. Deena Hinshaw even mentioned in a tweet last week that Albertans may even find tighter restrictions as time goes on
- Alberta has joined other provinces, the territories and federal government in a program to help small businesses pay rent. Many Alberta businesses have been required to close or limit their operations in order to protect public health during the COVID-19 pandemic. This has resulted in revenues being drastically reduced and in difficulties for many job creators. The new Canada Emergency Commercial Rent Assistance (CECRA) program will give certainty to small businesses by providing 50% of monthly commercial rental costs. Eligible landlords and tenants would each be responsible for 25% of the remaining costs

Office market observations

- Activity in Calgary's office market was stagnant prior to the market shutdown and WFH requirements went into place for the COVID pandemic. As a result, there is very little activity taking place in the office market at this time
- The impact on office vacancy in Calgary will likely not be seen until at least Q3 2020
- Landlords are hesitant to give big tenant improvement allowances and are placing more emphasis on the strength of covenants
- Landlords are planning to allow people back in, but everyone has to wear masks and various reports of one to four people per elevator with alternating days for groups of staff.
- Changes will be made to size requirements, layouts, and building systems as a return to office settles out

Industrial market observations

- It has been reported that a worker at the Amazon warehouse north of Calgary says the company has notified staff about four new cases of COVID-19 recently – bringing the total to five. The company first reported on April 12th that there had been one confirmed case among the more than 1,000 full-time workers at the 600,000-sf warehouse in Balzac. Workers are concerned the facility may need to be closed temporarily for sanitization
- Normally the current news about oil prices and over supply would be front page news, but COVID-19 is superseding everything
- Some landlords don't want to give up income to use the federal rent support program. There are a lot of questions about the program
- Changes will be made to size requirements as return to work settles out

Retail market observations

- The Oak Tree Tavern, located at 124 10th Street NW, revealed on April 22nd that it permanently closed after eight years of business
- Much-loved Calgary eatery and bar the Midtown Kitchen & Bar closed its doors permanently
- London Drugs is clearing some shelf space in select stores to give local small businesses the chance to sell their goods. The company says any small business in Western Canada that has had to close due to COVID-19 can submit products for consideration
- OEB Breakfast Company said it's had to lay off about 200 people across its restaurants and has seen an 80% drop in sales. The once-bustling breakfast joint had to pivot to only takeout and delivery, but the new rent relief program will make a huge difference to the bottom line
- Smithbilt Hats, the company that produces the white hat associated with the Calgary Stampede, says they're losing big time with the cancellation of the annual event
- One garden nursery will be opening up pop-up nursery plant sales to dispose of inventory their largest client is unable to use due to COVID-19 pandemic
- Rent collection was challenging in April, but overall better than anticipated. Enclosed malls were hit the hardest
- The federal rent relief program is a solution, but no road map has been given on how to execute it
- Foreclosures on restaurants could hit 40%

Property Management observations

- The recently announced federal rent relief program is making some tenants think they don't have to pay rent. Whereas they are being told by landlords they need to pay right now and it will get sorted it out once more details on the program are available, otherwise they risk going into default

Multi-Residential market observations

- A number of deals have fallen apart because investors can’t have future deals on the books right now
- Some new listings are being brought to market

Investment market observations

- The Canadian investment market remains well capitalized and groups are looking for opportunities to purchase in the second half of the year
- There are some groups looking to put their capital to work if unique opportunities become available

Valuation market observations

- Language has been inserted into all appraisals being completed at this time that says all results should be used with caution as there are too many unknowns at this time of the COVID-19 pandemic. Until more market information becomes available later this year, assumptions are based on the information available prior to the market shutdown
- Some foreclosures are being postponed because lenders don’t think there will be any market activity on the assets at this time
- Appraisal activity is expected to increase once back-to-work starts

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Greater Edmonton Area

May 6, 2020 | Canada

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Period covered: Mid-April to April 30th, 2020

General trends, news and market observations

- Premier Jason Kenney suggests Alberta is on track to begin re-opening some aspects of the economy sometime in May
- While Edmonton is doing well statistically, reporting nearly 3,000 fewer cases of COVID-19 than Calgary along with a substantial slowing in newly reported cases, Southern Alberta will need to see stabilization before the market can fully re-open
- City of Edmonton announced 900 additional temporary layoffs of city employees, bringing the total number of city-based layoffs to 2,500
- City council raised the residential tax rate to 2.5%, while opting to freeze property taxes for non-residential property owners. That freeze, coupled with the provincial reduction in the education tax rate, effectively serves as a tax decrease
- Development land progression, regardless of land use, has slowed as tenants and developers look for more market certainty before committing to proceed with deals

Office market observations

- While most groups eagerly await returning to the office, discussions around reducing office footprints have been increasing and likely will continue to do so

Industrial market observations

- There are currently 11 to 12 buildings available offering 100,000-sf-plus of space, which is expected to be prime real estate as demand in logistics and warehousing space continues to increase
- Industrial land sales have slowed with those who recently purchased land likely to stay on the sidelines until more certainty is introduced to the market
- While manufacturing industry has largely been impacted by the declining oil and gas sector, there are still a few companies that are thriving and expanding

Retail market observations

- Many local businesses are noting that it is not necessarily the drop in sales that hurt businesses, but rather the need to make investments to maintain that business; for smaller groups, there is lots of risk associated with spending on new initiatives to get products to consumers such as starting an online order system
- Majority of the entrepreneur pool will have limited funds post-pandemic; however, it is estimated that 10% to 20% will have the resources required to capitalize on the situation
- As businesses continue to permanently shutter their operations, built-out spaces are becoming increasingly attractive as potential options as opposed to groups constructing their own spaces from scratch

Multi-Residential market observations

- With minimal market activity occurring, conversations have started shifting to what will be important post-pandemic and what landlords can do now to ensure they are ready; notably the importance of having means to accommodate delivery to buildings as well as reliable, on call property management services

Investment market observations

- In analyzing all the major REITs across Canada, Melcor REIT – a largely Alberta-based portfolio – was an outlier that dropped to 70% of its pre-COVID-19 share value in mid-March and only had rebounded to about 44% of that value to date
- Majority of landlords thought tenants should have had April cashflow as support, but May rents are their primary concern at this time
- Investment properties are seeing a widening spread between vendors' and buyers' expectations

Property Management observations

- CECRA has caused some setbacks in terms of making arrangements with tenants as deferral-based discussions had already been happening for weeks as the majority of those arrangements pale in comparison to the 25% payment by the tenant
- Some are fully embracing the opportunities brought on by COVID-19 by analyzing their books, developing efficiencies and generally streamlining all their processes
- Businesses currently looking for space during the pandemic will have a bolstered covenant, with the sentiment being: if they can find space during this extreme downturn, they must be reliable and prepared for anything

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Greater Ottawa Area

May 6, 2020 | Canada

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Period covered: Mid-April to April 30th, 2020

General trends, news and market observations

- Ontario public schools are closed until the end of May, meaning many workers will still be working from home throughout the month
- The O-Train Trillium Line closed May 2nd for construction to expand the system, as Ottawa prepares for the first part of LRT Phase II project
- Real Estate Council of Ontario (RECO) offers fee relief for province's real estate brokers
  - Option 1: Defer ("Pay Later") renewal application payment
  - Option 2: Terminate registration, and re-instate at a discounted rate

Industrial market observations

- Deals in progress are continuing – including some tours

Investment market observations

- Large Toronto builders are interested in dipping into the Ottawa market in the near future

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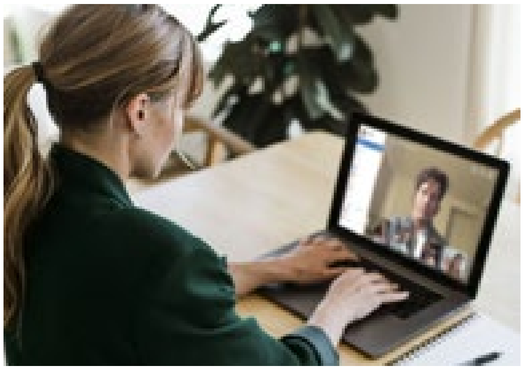
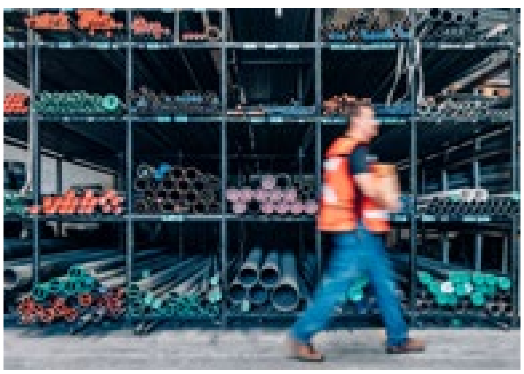


Can Flex Occupiers, Operators & Owners Look Too Far Into the Future?

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.

Learn more

Impacts on Canadian Commercial Real Estate

Mid-March to Mid-April, 2020

Learn more