COVID-19 | May 13, 2020

Impacts on Canadian Commercial Real Estate

The Re-Opening Begins

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.

Visit our Global Resource Centre

Looking for a previous update?

Mid-March to Mid-April 2020 | Mid-April to April 30th, 2020

Economic Impacts

May 13, 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.

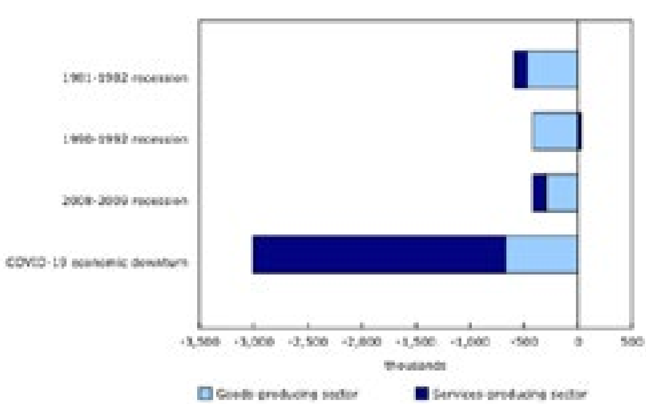
Period covered: May 1st to 8th, 2020

Employment numbers, not entirely surprising…

According to Statistics Canada's April Labour Force Survey, employment fell by nearly two million in April, bringing the total employment decline since the beginning of the COVID-19 economic shutdown to more than three million. Notable April highlights include:

- The unemployment rate jumped 5.2% in April to 13%, driven largely by temporary layoffs. This followed an increase of 2.2% in March
- Full-time (-1,472,000; -9.7%) and part-time (-522,000; -17.1%) employment both fell. Cumulative losses since February totalled 1,946,000 (-12.5%) in full-time work and 1,059,000 (-29.6%) in part-time employment
- The magnitude of the decline in employment since February (-15.7%) tops declines recorded in previous labour market downturns. By comparison, during the 1981-1982 recession, total employment decline was 612,000 (-5.4%) over approximately 17 months
- The unemployment rate rose noticeably in all provinces in April – led by Quebec (17%)
- Employment dropped sharply from February to April in each of Canada's three largest census metropolitan areas. As a proportion of February employment, Montreal recorded the largest decline (-18.0%; -404,000), followed by Vancouver (-17.4%; -256,000) and Toronto (-15.2%; -539,000)
- Within the services sector, employment losses continued in several industries, led by wholesale and retail trade (-375,000; -14.0%) and accommodation and food services (-321,000; -34.3%)

Comparison of Canadian Labour Market Losses During Historical Recessions



Source: Statistics Canada

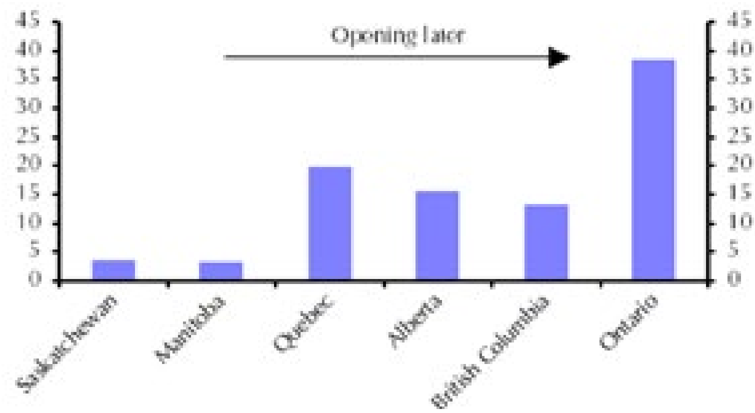
A slow re-opening gives hope for GDP growth

The economic numbers thus far have been dire and there doesn't appear to be clear consensus among economists as to what the recovery will really look like and how long it will take for us to return to normal, whatever that "new normal" will be.

While in a prior briefing, we noted that the likely recovery scenarios debated among economists took the form of the letters V, U, W, or L, a recent statement from CIBC World Markets Managing Director and Deputy Chief Economist Benjamin Tal suggests it will be a long "recessionary recovery" and follow a "zig-zag" or "Z" pattern. Tal went on to say that the economy is "frozen" and is neither "in a recession or a depression, but something in between." His outlook calls for the economy to emerge from the recovery phase in 2022 or 2023.

Even though much of the country is a long way off operating at full capacity and generating any meaningful GDP growth, the measures put forward by many provinces to slowly re-open their economies in May will give GDP a much-needed boost. The pace of re-opening weighs heavily on Canada's biggest provinces and contributors to GDP output.

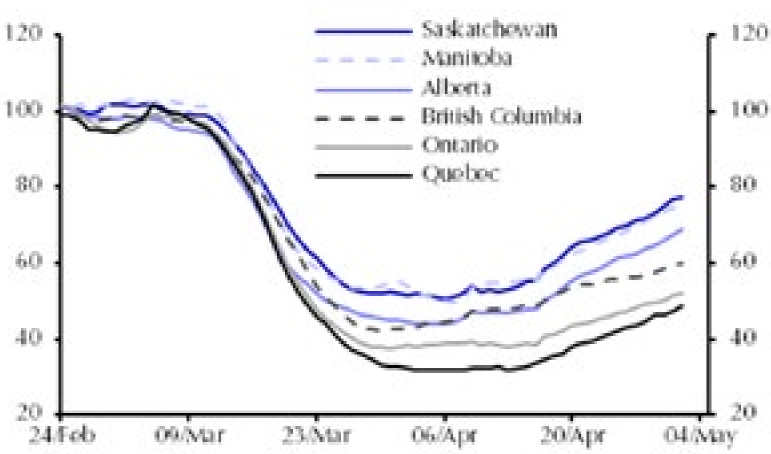
GDP by Province (% of Canada GDP)



Source: Capital Economics

According to a recent report from Capital Economics, Apple's mobility data suggests that the number of automobile trips has rebounded by more than 50% compared with early-April lows in Quebec, Alberta, Manitoba and Saskatchewan, and almost 40% in Ontario and British Columbia.

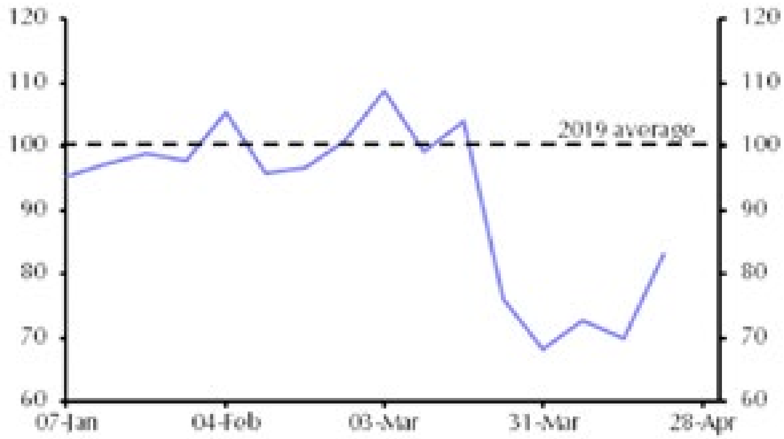
Apple Mobility Report: Driving (Index, 24th February = 100)



Source: Capital Economics

Meanwhile, data from RBC shows that consumer credit- and debit-card spending increased sharply heading into the final week of April.

RBC Debt & Credit Card Spending (2019 average = 100)



Source: Capital Economics

For more information please contact:

Bill Argeropoulos
+1 416.673.4029
bill.argeropoulos@avisonyoung.com

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Commercial Real Estate Sector

May 13, 2020 | Canada

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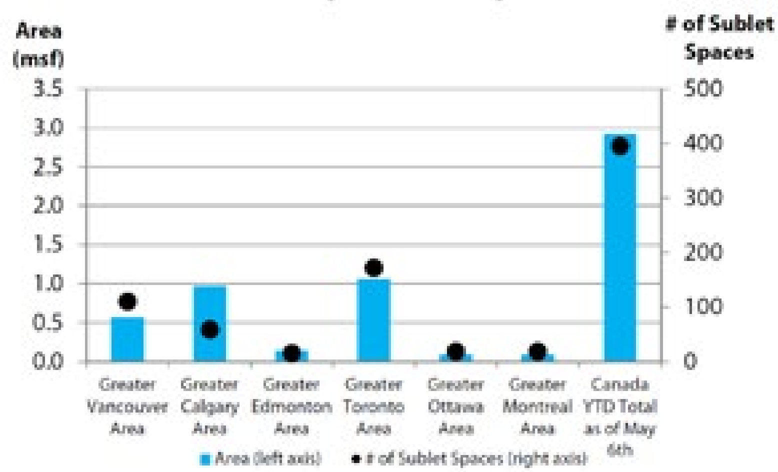
Canadian office sublet growth in check (for now)

An analysis of new office sublet listings in Canada's major markets through the first week of May 2020 reveals that a much-discussed potential spike in listings resulting from the pandemic has not occurred – yet. Some highlights include:

- The national sublet availability rate stood at 1.9% – similar to one year ago
- Sublet available space as a proportion of total available space stood at almost 17% – up from 15% one year earlier
- Across Canada's major markets, the number of new subleases marketed in the month of April (89) represented a slight decline compared with the previous three months
- April's new listings also totalled slightly less square footage (738,000 sf) compared with March's total (767,000 sf), though higher than January and February
- In all, 395 new sublet spaces, representing almost 3 million square feet (msf) were brought to market between January 1st and May 6th:
  - By size range, spaces less than 5,000 sf represented 55% of the number of spaces, while those for 10,000 sf and up represented 24% of spaces but 63% of total square footage
  - The average size of new sublet spaces was 7,400 sf. Calgary posted the highest average sublet size (16,400 sf), while Montreal and Ottawa tied for the smallest average size (4,900 sf)
  - Sublets in class A buildings made up the bulk of the total, accounting for 50% of the number of spaces and 71% of total square footage listed
  - On average, class A sublets were the largest at 10,400 sf, while class B spaces averaged 4,700 sf and class C spaces 3,600 sf
  - By market, Toronto and Vancouver posted the highest number of new spaces (172 and 110, respectively), while Toronto (1.1 msf) and Calgary (967,000 sf) posted the most total square footage listed – each accounting for more than one-third of the national total

There is a lot of discussion in the marketplace about upcoming sublease listings, many of which have likely not yet been marketed due to the logistical difficulties (such as touring spaces) that would arise and the reluctance of potential subtenants to transact amid the uncertainty of the pandemic. As restrictions are lifted across the country, more listings may come to market and only then will the true extent of the phenomenon become apparent.

Canada Sublet Spaces Entering the Market



Source: Altus Group and Avison Young Research

A "playbook" for re-opening retail

Even though the retail sector remains in a depressed state, stakeholders are taking the necessary steps to re-open with consumer safety paramount. As reported recently by Retail Insider, the framework for a COVID-19 Response Planning guide or "Retail Recovery Playbook" has been created by the Retail Council of Canada (RCC) in consultation with Boston Consulting Group as well as input from industry experts and task forces. The Canadian-specific guidelines were developed through observation of global best practices and company practices, namely those operators in the essential, non-essential, and restaurant sectors in countries that have started to slowly come out of the COVID-19 pandemic lockdown.

The playbook outlines four key priorities for retailers for customer health and safety:

- Customer screening & requirements. Manage access to the store to people who may be exposed to COVID-19, while protecting the vulnerable
- Social distancing. Provide adequate space to allow customers to navigate while avoiding proximity with others
- Checkout and payment. Limit interaction during checkout and payment processes to minimize transmission risk
- Store cleanliness. Over-invest in cleaning to ensure any potential virus exposure is quickly eradicated

Three key priorities for employee wellbeing include:

- Safety procedures and protective equipment. Provide preventative and protective equipment to create a safe workplace
- Supporting employees through the pandemic. Assist employees through flexibility and support programs (financial and otherwise)
- Confirmed case response. Re-assure staff and customers with clear, credible communications

A good measure of the performance of the retail real estate sector universe is through the analysts' tracking of publicly listed REITs. According to a recent BMO Capital Markets report (among others in the REIT-coverage arena), April rent collections confirmed the weakness in non-essential retail and small businesses and the consensus is that May and June rent collection figures will likely be lower. A sample of April rent collection results from prominent retail REITs include:

- CT REIT: 97% overall rent collection
- Crombie REIT: 87% overall rent collection
- Choice Properties REIT: 86% overall rent collection
- Slate Retail REIT: 80% overall rent collection
- First Capital REIT: 74% overall rent collection
- Plaza Retail REIT: 72% overall rent collection
- SmartCentres REIT: 66% overall rent collection
- RioCan REIT: 55% overall rent collection

Meanwhile, retail failures are expected to become more common in the weeks and months ahead. In the first week of May, an early example was the announcement from Montreal-based footwear retailer Aldo that it intends to restructure its operations after closing its stores in March due to the COVID-19 crisis.

Multi-residential delinquency rates in check (for now)

Despite the concerns caused by tenant advocacy groups encouraging residents to forgo rental payments, a recent REALPAC survey of April rent collections by 17 multi-residential owners/managers representing nearly 275,000 rental units across Canada revealed that April rent collections were "better than initially expected". However, there are still significant concerns over May rent, which REALPAC will track closely through successive surveys. April survey highlights include:

- The national average for delinquency rates was 8.6%, with Quebec (10.1%) and Ontario (9.2%) above the Canadian average and Alberta (7.9%) slightly below
- Based on tenant communications, 65% of respondents are expecting lower rent collections in May, while 30% expect them to be the same as April
- The national rent deferral rate was 2.1%, with Quebec, Ontario, and B.C. reporting rates in the 2.3% to 2.5% range, while Manitoba was the highest at 5.3%
- Approximately 12.5% of rent deferrals were for one month; 56% were for three or more months

Though early in the month, prominent apartment REITs are calling for May rent collections to be in line with April levels. Out of the gate, Minto Apartment REIT expects May rental collection to be 97%-plus, including a current deferral rate of 2.3%, while Killam Apartment REIT expects to meet April's rental collection target of nearly 99% and says that, thus far, less than 50 residents (0.2%) have requested rent deferrals.

Key investment stakeholders weigh in

Although investment activity varies by geography and asset class, the market remains largely in a holding pattern. However, a survey of stakeholders conducted by Altus Group, focusing on key assumptions, produced some interesting findings:

- The pandemic crisis has delayed or postponed investment plans for more than one-third of respondents, regardless of asset class
- More than 50% of respondents said that all transactions in their pipeline were on hold – with the majority indicating that the pause would last "at least three months" or an undetermined length of time
- One-third of respondents were considering opportunistic purchases
- The majority of respondents expect stable cap rates for industrial and multi-residential assets in core urban markets (if the pandemic were resolved by June 30th)
- The expectation is for higher cap rates for office and retail assets, particularly for lower-quality and/or suburban assets
- Unsurprisingly, there appears to be consensus among owner types with respect to retail acquisitions in the pipeline, with more than 60% of pension funds/life cos, public and private companies reporting that all their transactions were on hold
- Respondents viewed industrial assets with more optimism, with a larger proportion saying they are looking at deals for Q2 and beyond
- Multi-residential assets were viewed most optimistically of all, with a high proportion of respondents reporting they are finalizing deals started prior to Q2 and looking at deals for Q2 and beyond

For more information please contact:

Bill Argeropoulos
+1 416.673.4029
bill.argeropoulos@avisonyoung.com

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Greater Toronto Area

May 13, 2020 | Canada

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General trends, news and market observations

- The City of Toronto has extended its State of Emergency indefinitely
- The City has also converted some curb lanes to sidewalk to allow downtown pedestrians easier social distancing while walking
- City of Vaughan has launched a new online permit portal – citizens and developers can now view, apply and pay for building permits electronically
- The Government of Ontario has released workplace guidelines to provide a framework for safety in the workplace. The provincial government announced additional measures on April 30th, 2020 that are aimed at promoting workplace health and safety in several key sectors. Specifically, these "best practices" guidelines apply to the manufacturing, food manufacturing/processing, restaurant/food service and agricultural sectors
- The Government of Ontario has partnered with four provincial safety associations to release more than 50 guideline documents providing worker safety procedures for a broad range of industries and workplace types
- Certain businesses in Ontario and construction sites will be allowed to re-open May 4th, adhering to new safety guidelines. Most still remain closed. Now allowed to open are: Garden centres and nurseries (curbside pickup and delivery only); Lawn care and landscaping; Construction projects involving any of the following (in addition to projects already permitted to proceed): Shipping and logistics; Broadband telecommunications and digital infrastructure; Improvements to delivery of goods and services; Municipal, college and university projects; Schools and child-care centres; Site prep, excavation and servicing for most types of development; Car washes (automatic and self-serve); Car dealerships (by appointment only); Golf courses and marinas (preparation for the upcoming season only, as specified, with no public use or access permitted)
- For developers, construction costs will probably rise as a result of inefficiencies imposed on job sites due to COVID-19 construction precautions
- There will be a significant increase in occupancy for all sectors within the quarters following availability of a vaccine
- Google affiliate Sidewalk Labs has abandoned its ambitious plans for a smart city development on Toronto's waterfront – although the project had faced some opposition and many hurdles, the reason given was the impact of COVID-19 on Toronto's real estate market

Office market observations

- Food delivery provider Foodora will exit the Canadian market May 11th – office location is in downtown Toronto
- According to an industry webinar discussion, it is unlikely that future office developments will commence until a vaccine is found. Tenants will examine their workplace needs post-COVID-19 to see what is required on any given day in terms of space and amenities. Leases will likely be written differently post-COVID-19 to reflect the new circumstances
- It's possible that employees setting aside more home office space for increased working from home could become one factor affecting overall demand for office space/buildings
- Some transactions that had been paused are starting to revive
- Landlords are looking for a premium on rent for short-term deals
- Delivery dates for some downtown developments are still on track - not the case for others
- Tenants may be looking to do shorter-term deals, but landlords may not agree or may not provide allowances
- The sublet market will likely continue to expand. New sublet listings are coming out daily
- New regulations may reduce employee headcount that is possible in existing premises, and some tenants may choose to replace soft finishes with harder materials that are easier to disinfect. However, this situation will be temporary, so plans for changes to premises need to be flexible and adjustable so the space can be adapted as the situation evolves over time
- New operation procedures for office towers upon reopening may include manned elevators with operators pushing the buttons for tenants

Industrial market observations

- The industrial sector is directly tied to GDP – more product moving from warehouses to stores
- Goodfood will open a new 42,000-sf fulfilment centre in the GTA in late May to help meet demand for online grocery shopping
- The increase in e-commerce activity (up 200% according to Canada Post) means last-mile delivery locations will be in greater demand
- The market may start to see softening or attrition in the small-bay segment
- Uncertainty will likely result in a halt on speculative industrial developments
- Any negative impact on the industrial sector from this crisis may have a knock-on effect on land values
- Re-shoring of manufacturing to Canada will take a long time – it's a generational thing and cannot transition that quickly. Critical goods (such as medical) need to be closer to home moving forward
- With passenger flights restricted and air freight in demand, passenger jets are being converted to move PPE from Asia
- There may be consolidation in the third-party logistics (3PL) sector as companies that adapt better to this situation will come out stronger, with best practices and lessons learned from the pain they are going through right now. In future, intelligent 3PL firms will build the cost of risk into products
- Data centres are expected to benefit from the crisis as demand for all kinds of online services continues to grow

Retail market observations

- Owners of buildings on the PATH network in downtown Toronto have already agreed on reopening protocol harmonization
- GTA grocery chain Longo's now requiring customers to wear face masks in its stores
- As early as May 8th, the Ontario government is allowing all retail stores with a street entrance to provide curbside pickup and delivery, as well as in-store payment and purchases at garden centres, nurseries, hardware stores and safety supply stores
- The way to shop has changed – more online food purchasing – click and collect services will be used more in the future
- Many landlords want to do what it takes to keep their existing tenants and will probably find a way to help them "keep the lights on". As a result, large numbers of empty storefronts may not appear
- Large enclosed malls are likely to change their mix of uses in the longer term - less fashion and more mixed-use including office, medical etc.
- There are likely to be some aggressive sales in the summer months, e.g. for clothes, as retailers and distribution firms aim to clear the backlog of merchandise that is currently being warehoused

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

For more information please contact:

Bill Argeropoulos
+1 416.673.4029
bill.argeropoulos@avisonyoung.com

Steven Preston
+1 416.673.4010
steven.preston@avisonyoung.com

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General trends, news and market observations

- B.C. government announced the timeline on May 6th to reopen aspects of the provincial economy that have been closed as a result of the coronavirus pandemic. The four-phase approach will see the following reopened under enhanced protocols. These dates remain in place for as long as the coronavirus transmission rate remains low or in decline. B.C. is currently in phase 1

  Phase 2 (Starting May 19th): Re-scheduling elective surgery; medically related services: dentistry, physiotherapy, registered massage therapy, chiropractors, physical therapy, speech therapy, and similar services; retail sector; hair salons/ barbers/other personal service establishments; in-person counselling; restaurants, cafes, pubs – with sufficient distancing measures; museums, art galleries, libraries; office-based worksites; recreation/sports; parks, beaches and outdoor spaces and child care

  Phase 3 (June-September): Hotels and resorts (June); parks – broader reopening, including some overnight camping (June); film industry – beginning with domestic productions (June/July); select entertainment – movies and symphony, but not large concerts (July); post-secondary education – with mix of online and in-class (September) and K-12 education – partial return in June, full return in September 2020

  Phase 4 (TBD - Conditional on at least one of: wide vaccination, "community" immunity, or broad successful treatments): Activities requiring large gatherings, such as: conventions, live audience professional sports, concerts; and international tourism

- Vancouver mayor, council encouraged by B.C. Premier John Horgan's restart plan for economy

- The City of Surrey is moving forward with plan to accelerate the recovery of businesses, residents, and municipal operations, including a 90-day extension on late payment penalties for residential and commercial property tax payments, with late payment charges to come into effect on October 1st instead of July 3rd. On the construction industry side, new and in-stream projects with a construction value of more than $25 million will benefit from a 50% reduction of many development-related fees

- B.C. continued its historic job market slide in April due to COVID-19 as the unemployment rate climbed to 11.5% in April from 7.3% the previous month, Statistics Canada announced

- Confusion and lack of details regarding the Canada Emergency Commercial Rent Assistance (CECRA) program – announced April 24th by Canadian Prime Minister Justin Trudeau – has limited adoption of the program in B.C. Many landlords have declined to participate citing numerous questions/issues regarding the program with some clarifications issued by the Canadian government last week. 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. (See more details related to the CECRA program in the Property Management section of this summary.)

- Federal government unlikely to provide additional rent support; banks asked to step up

- City of Vancouver staff propose changes to the city's short- and long-term housing strategy to reflect the shortfalls in its current plan made apparent by COVID-19; this includes fast-tracking the review and approval processes for a range of identified affordable and market rental residential development applications

- Metro Vancouver home sales in April 2020 fall to 38-year low: REBGV

- B.C. home sales and new construction forecast to fall by 30% in 2020: report

- House prices will fall 10% before recovery: Moody's

- TransLink to resume fare collection and front-door boarding on buses in June 2020

- BC Ferries to increase passenger capacity on major routes

- COVID-19 will cause B.C.'s GDP to contract by 7.3% in 2020, according to Central 1 Credit Union. This exceeds the previous record contraction of 6.4% during the 1982 recession. In March 2020, B.C. lost 132,400 jobs, which increased the unemployment rate to 7.2%; unemployment through 2020 is expected to average 8%; sectors that are hardest hit include hospitality, food services, information and culture, recreation, and tourism and retail, with younger workers and females particularly impacted

- Carnival Cruise Line will resume a select number of its North American cruises starting August 1st with eight ships from Miami, Port Canaveral, and Galveston; the suspension of other North American and Australian markets will be extended through August 31st, which will likely mean there is little to no likelihood of a cruise season in Vancouver in 2020

Office market observations

- Landlords seeking stronger covenants in exchange for longer term

- Sublease office opportunities continue to come to market; most remain small but some larger spaces beginning to surface

- The City of Vancouver postponed its Broadway Plan to Q3 2021

- Major institutionally owned speculative office developments in Canada that have not started construction will likely be shelved due to substantial declines in cash flow related to the institutional owners' battered retail portfolios and questions around future office demand

Industrial market observations

- Industrial remains the least impacted asset class; however, most owners/tenants are focused on maintaining operations and not thinking about real estate
- Industrial lease rates remain largely unchanged from pre-COVID-19 rates, but investment yields will likely rise
- Restructuring supply chains remains a key discussion in industrial
- Demand for small industrial spaces appears to be recovering with small-bay requirements emerging; small-bay industrial in Richmond appears to be climbing along with lease rates but may be related to office users trying to secure industrial space in order to build out office portion
- Number of tours continue to increase as do sale offers with multiple bid situations emerging
- Buyers are expecting vendor pricing expectations to come off, but they aren't and are unlikely to due to the resiliency of the asset class demonstrated to date
- Toronto-based companies appear to be getting back to business but appear two to three weeks behind B.C.
- May rent was not a substantial issue for industrial landlords in Metro Vancouver

Retail market observations

- Retail lease rates forecast to fall when Vancouver stores reopen
- T&T Supermarket requires all customers to wear non-medical face masks while shopping in-store
- Vancouver's Value On Liquor Store installs thermal camera
- B.C. restaurants aiming for June 1st for reopening under social distancing guidelines
- Vancouver restaurants worried about ability to re-open as COVID-19 restrictions ease
- Vij's Rangoli vacated its South Granville location and moved operations to Vij's Restaurant on Cambie Street
- Very challenging to underwrite retail assets in this environment, but small deals (less than $10 million) are possible but may require price reductions and other purchaser incentives
- Major landlords are starting to recognize that rent deferment discussions and agreements are only the first step in a longer endeavor to try to normalize leasing in their assets
- There is a realization by tenants and landlords that it is unlikely that there will be a return to normalized sales levels in the foreseeable future
- Restaurant and food retailers have been seeing double-digit growth in sales during the past couple of weeks as people start to feel comfortable and go out, order take out and visit stores; some tenants are getting to 30% to 60% of sales before COVID-19, but it is anticipated this growth will level off quickly and getting to 100% is going to take a lot longer
- There will likely be a downward trend in retail rental rates, not just on new deals, but probably on existing deals with tenants looking to landlords to open up existing leases and renegotiate in order to stem massive amounts of vacancy
- Landlords will have to come to the table with the retailers they believe in and who they want in their portfolios and work with them at least on a short term – one or two years - or at renewal or landlords are going to see a lot more vacancy at a time when space will be difficult to fill

- Valuations for shopping centres and retail in general will likely decline as rental income dips, vacancy rises and the ability to fill vacancy is more challenging than ever
- Changes in consumer habits are going to affect tenants' ability to go back to paying full rent, let alone paying full rent plus an amortized portion of the deferment received
- May rent figures have yet to come through but they we are probably at or below April
- Requirements from government and some driven by retailers themselves will include measures to ensure retailers do everything they can to create safe work environments for employees and safe places for people to shop
- Retailers are shifting from talking about rent deferment to what they have to do to operate in this new normal, which could include regulated hand washing, temperature and health checks at the beginning and end of shifts; employees wearing masks and/or gloves, or a restrictions on the number of employees in certain areas
- Retailers are wanting to be proactive and go beyond requirements to show they are a safe place to work because it is as much about employees feeling comfortable coming to work as it is about getting customers to shop or eat at the restaurant

Property management observations

- There is no government program yet that can be relied upon for commercial rent deferral and that participation in the CECRA is contingent on the landlords agreeing to do so, which most landlords have not agreed to do
- Some rent relief requests granted for tenants with longstanding relationships and who provided complete transparency with their financials; a number of lease renewals were also completed; business is getting done and people are optimistic to get back to work; it is really trying to motivate tenants to think objectively and to be honest with landlords because then there is a willingness for landlords to work with them
- Property management is increasingly turning from rental discussions to figuring out how to reopen buildings, which typically involves at least seven considerations: communications, physical distancing, janitorial, building operations, security, mechanical systems and signage; each consideration has its own set of complex issues; also all service contracts need to be redone to include a COVID clause
- Clients are looking towards having "touchless" buildings, including door openers and touchless faucets and soap and paper dispensers; a real emphasis on touchless and motion-activated functions is going to be the new normal and costs are going to rise; property management needs to future-proof buildings against when something like this happens again

Multi-Residential market observations

- Demand for apartments has not been impacted by COVID-19; the real impact is the inability to get people through buildings/units in order to generate offers from prospective purchasers and/or to complete/waive outstanding conditions required as part of due diligence; still pitching on multi-residential assets and continuing to entertain offers on listings
- Too early to know scope of residential rent paid/unpaid in May, but government support programs such as the CERB and UI along with other government programs appear to have gotten funds into people's hands to help them make rent payments for the time being

Investment market observations

- Capital markets activity is muted due to some potential vendors who aren't prepared to entertain offers yet and Canadian institutions that will likely decline to complete any significant deals in 2020
- Most major deals are on the sidelines along with most buyers; those owners who are considering selling tend to be private
- Deals in the $10-million range are still there to be done, but deals in the $50-million to $100-million range are way more difficult because people are looking for data that isn't there yet
- Popularity of owning strata office and/or industrial space will increase as ownership is perceived as a way to future-proof against economic shocks such as a pandemic
- COVID-19 clauses are being inserted into sale contracts, which are generally being extended, not dropped, because no one can tour, which is slowing due diligence and requiring an extension
- Refinancing debt is emerging as an issue with some lenders concluding that valuations are too high

For more information please contact:

Andrew Petrozzi
+1 604.646.8392
andrew.petrozzi@avisonyoung.com

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General trends, news and market observations

- First announced on March 27th, the state of emergency in Montreal has continuously been extended and was now set to remain in effect until May 5th
- According to Tourism Montreal, the 2020 tourist season will be extremely difficult in Montreal due to the pandemic as they had exceptional projections for 2020 for both business and leisure tourism, which were brutally halted. Business tourism, which represents $55 million annually in normal conditions, should resume in September or October, but gatherings are expected to be much smaller
- Beyond the immediate financial impact that the crisis is having on businesses, the pandemic is expected to increase the importance investors attach to environmental, social and governance (ESG) criteria
- Company administrations will also have to look into the future compensation of executives, currently reduced or suspended in certain cases
- The pandemic quickly brought risk management back to the forefront as many organizations produced comprehensive risk management guidelines. Firms of all sizes are discussing the concepts of immediate management as well as long-term business strategies and resilience
- A large survey released April 30th by Statistics Canada and the Canadian Chamber of Commerce revealed that:
  - Nearly half of Quebec businesses have seen their revenues plummet by more than 20% due to the pandemic, and just over one in ten have cut staff salaries
  - Nearly half of Quebec companies laid off employees in the wake of the COVID-19 pandemic. The survey also shows that 12% of companies have laid off 100% of their workforce. A slight majority of them (52%) have laid off less than 1% of their employees, if any
  - A third of Canadian businesses (29% in Quebec) are able to partially or completely continue their activities for six months or more, but 18% (20% in Quebec) are unable to do so for part of their activities or for their entire business altogether
  - In terms of sales, 53.5% of Canadian businesses experienced a drop of more than 20%, compared with 47.8% in Quebec. More than 6% of Quebec companies, however, saw revenues jump by more than 10%, a proportion observed in several provinces. Across Canada, revenue declines of more than 50% hit the entertainment and food service industries in particular
- Facing the tight conditions in Montreal hospitals, where fewer beds are available than in the rest of the province, the Quebec government announced on May 4th the postponement of the opening of non-essential businesses by a week in Montreal, which will take place on May 18th rather than May 11th
- The Montreal Chamber of Commerce views the postponement of the reopening of businesses in Greater Montreal from May 11th to the 18th as both disappointing and understandable

Considerations for Construction and Permits (APCHQ)

- Even if the opening of certain businesses has been postponed by a week, construction activity for public and transportation projects is still going to 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 also be able to resume
- In total, nearly 85,000 construction workers will be going back to work as of May 11th

Considerations for Real Estate Brokerage (OACIQ)

- With the re-opening of certain businesses, Quebec brokerage professionals are eager to resume work on non-priority real estate transactions. At this time, 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 are launching post-COVID-19 return to the office plans, implementing strategies that include crucial elements such as telecommuting, virtual management and videoconferencing to respect social distancing, and evolving health requirements
- Because propagation control will become a new priority in the office, the reduction in density of office space could result in the absorption of more office space for companies who can afford to expand their premises
- This potential trend toward declining density could, to some extent, counterbalance the new supply of space available for sublease on the market
- Temporarily closed at the start of the COVID-19 crisis, the Place Ville-Marie observatory will cease operations permanently. The observatory, which occupied the 45th and 46th floors of the iconic tower, was inaugurated in 2016 thanks to investments estimated at $13 million
- There could be an increase in interest for office space in the outskirts of the Downtown Core in order to avoid overly populated areas and public transit infrastructures in the short to mid term, reinforcing the interest for submarkets such as the South Shore or Laval

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 18th. 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
- In total, more than 176,000 manufacturing workers will be reinstated
- 4% of Canadian manufacturing companies were able to transform their supply chains to make masks and protective equipment, highly coveted in the health sector and by companies deemed essential, including grocery stores and certain manufacturing companies
- It seems that the COVID-19 crisis put an end to the high demand and the labour shortage for Quebec SMBs in the aeronautics sector. This could give way to a long-awaited period of consolidations in the industry. With the shrinking market conditions, some consolidations will be “forced” because there SMBs will be undergoing severe difficulty, while some who already had problems before the crisis will have no choice but to consider mergers instead of going under
- 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 available industrial product and historically low vacancy rates. At this point, short-term demand is increasing, which could be problematic given the lack of supply

Retail market observations

- Businesses with direct access to the outside are slowly reopening their doors to the public. Shopping centres remain closed
- Retailers outside of Montreal started resuming operations May 4th, and retailers in Montreal were to start resuming operations on May 11th, but the Quebec government pushed back the opening date to May 18th
- 196,000 retail and retail supply chain workers will be returning to work between May 4th and May 18th as the initial reopening date for the Greater Montreal Area has been pushed back one week
- Most retail malls, power centres and retail complexes are impacted by skipped rents and could see vacancy rates increase by year-end
- Sunday closings remain in effect until May 31st
- Unlike many other sectors that have been instructed to prepare or even plan for re-opening, directions for the restaurant industry are still pending. The Quebec government indicated on May 4th that there were no plans for any form of reopening in the restaurant industry in the short term

Multi-Residential market observations

- Multi-residential landlords were 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% in most cases)
- Just like in the month of April, rent collection in multi-residential buildings and portfolios seems to remain better than expected, showing little to no impact and receiving few requests for deferrals or non-payment. A clearer picture of the rent collection percentages will emerge over the next few weeks

Investment market observations

- Some local lenders seem to indicate that investment business and transactions are picking up, although some operations remain slightly held up by inspection activity, which is slowly resuming across the Greater Montreal Area commercial real estate market

For more information please contact:

David Major-Lapierre
+1 514.905.5443
david.major@avisonyoung.com

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Greater Calgary Area

May 13, 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: May 1st to 8th, 2020

General trends, news and market observations

- Alberta announced its staged COVID-19 relaunch strategy; a phased relaunch will put Albertans' safety first as closed businesses and services are gradually reopen and get people back to work
- The Business Council of Alberta (BCA), alongside the chief executives of some of the province's largest businesses, have sent a letter to Premier Jason Kenney outlining a three-point plan for economic recovery. The plan includes the following three steps: 1) Develop a thoughtful, safe and ethical approach to a gradual and phased-in reopening of the Alberta economy that safeguards health, but also begins to recover lost jobs and closed businesses. 2) Re-examine Alberta's short and long-term fiscal model in light of reduced revenues and increased need for government support. 3) Re-imagine Alberta's long-term economic opportunities and competitiveness by creating a bold and inspiring economic and industrial strategy for the province for the next 20 years
- Mayor Naheed Nenshi warned Calgarians not to get too excited about the possibility of a broader reopening in two weeks. The Alberta government announced this week that some businesses – from restaurants to retailers to hairdressers – can open their doors as early as May 14th. But that date could be pushed back if health measures like more comprehensive testing and contact tracing procedures aren't in place
- The City of Calgary issued a statement in support of the premier's announcement that Alberta would begin to reopen parts of the economy, in a series of gradual stages. "Re-opening the provincial economy requires a plan, and it's clear that a lot of thought has gone into this announcement from the province," Nenshi said. "A phased approach allows for us all to be watchful for any future outbreaks and ensure we re-open at a speed that is safe for our communities."
- On April 30th, city council approved further support for businesses in Calgary as they navigate the challenges resulting from the COVID-19 pandemic. New supports for businesses include: A Small Business Support team available to support businesses pivoting their business model as they re-open. Waiving of the business license renewal fee for one year to reduce the financial burden on businesses. Six-month relief efforts effective May 1st, 2020 including: Waived Planning & Development fees for change of use and home occupation (class 2) development permits, residential certificates of compliance and pre-application fees, to support businesses adapting to COVID-19. Deferred Planning & Development fees for commercial building permits, development permits, subdivisions, land use amendments, outline plans and road closures. 75% of payment will be deferred to final stages of approval, offering financial flexibility of better cash flow management through projects. Fee simplification through elimination of the set up front deposit, simplifying by applying one

common fee schedule rate to all outline plans and land use amendments, and applying the deferral relief above. Extensions on development and building permits offered to ensure existing approvals will not expire while businesses deal with the impacts of COVID-19. The expansion of the Centre City Enterprise Area to include all commercial properties through a pilot

- Alberta is one of the provincial governments which have provided details on how they will facilitate the federal government's commercial rent relief program to small businesses impacted by the COVID-19 pandemic. The Alberta government said it expects to commit up to $67 million through the CECRA, while the "remaining and majority" of costs will be covered by the federal government
- As the province's relaunch takes shape, more than half of Albertans are comfortable visiting a doctor, having dinner at a friend's home, getting a haircut or going out to a restaurant, according to a survey. Those Albertans say they're willing to start resuming those elements of normal life even before a COVID-19 vaccine is ready
- Calgary's mayor is asking the Alberta government for clear directions on how the economy will be gradually reopened in the coming weeks. Mayor Naheed Nenshi said that he's heard from some businesses owners who are preparing for potentially reopening later this month but who don't understand what restrictions they will have to follow
- Mayor Naheed Nenshi says the city wasn't consulted about Alberta's plan to start lifting COVID-19 restrictions, and local businesses are facing unanswered questions less than two weeks before they might be able to reopen. Nenshi told a council committee on May 5th that he's heard conflicting information about how different industries will decide on the rules they have to follow in the first stage of Alberta's reopening plan, which could begin as early as May 14th. Some restrictions will still be in place when businesses get the green light to reopen, including the current 15-person limit on gatherings. But Nenshi said there's still uncertainty about how businesses ensure they're taking proper health precautions, especially as the Calgary area continues to be a hot spot for COVID-19 cases

Office market observations

- Companies' plans for return to office are being developed, including:
  - PPE orders for staff
  - Determining safe layouts
  - People movement / directionality / arrows on floor
  - Mask wearing requirements
  - Staff schedules / alternating days
  - Work From Home will continue to be supported/encouraged where efficient/practical
  - Elevators remain a big question
- The office market has been very quiet with mostly smaller tenants in market looking
- The consensus is that rents will decline but it remains a question of how much and when. Inducements, free rent, gross rent will be big considerations

Industrial market observations

- Alberta Health declares COVID-19 outbreak at Amazon warehouse north of Calgary; health officials report five workers have tested positive for COVID-19
- 30 employees of the Calgary-based Purolator facility tested positive for COVID-19. According to Purolator, the majority of the cases are in employees who work in “inside sortation”
- Landlords are still swamped with requests for rent abatements, especially if they have a lot of smaller tenants
- Industrial assets remain highly desired as they continue to be one of the best performing assets

Retail market observations

- Alberta’s new COVID-19 relaunch plan means some businesses could be allowed to reopen as early as May 14th, but not all Calgary business owners are feeling comfortable with the idea of welcoming back customers
- Alberta businesses are concerned about a possible shortage of masks, gloves and other personal protective equipment as the province prepares to begin the staged reopening of the economy
- Restaurants, bars and salons are in Alberta’s first stage of relaunch amid the COVID-19 pandemic, to reopen as early as May 14th. But in Calgary, home of Alberta’s highest concentration of cases, workers and business owners have mixed feelings about getting up and running again
- Albertans itching for a routine dental checkup or eye exam might have to wait a little bit longer. Although the provincial government said health professionals could re-open offices as soon as next week, chief medical officer of health Dr. Deena Hinshaw said many clinics are unlikely to open immediately. Alberta’s 30 regulatory colleges, which license and oversee professionals such as physiotherapists, occupational therapists and social workers, must prepare guidelines for safe operation during the coronavirus pandemic
- Alberta restaurants asking Premier Jason Kenney for clear rules before they reopen
- Pop-up retail could help save firms hit by pandemic effects; an Alberta/B.C. greenhouse nursery sitting on millions of dollars of inventory due to COVID-19 pandemic retail shutdowns, worked with commercial real estate experts and were able to create pop-up garden shops
- A growing online petition is calling on the provincial government to reconsider the reopening of hair salons and barbershops during the first phase of the relaunch in Alberta
- Alberta restaurants are permitted to open as early as next week, but some owners worry they won’t be able to turn a profit under COVID-19 restrictions and wonder if customers are ready for a dine-in meal
- Need to enable more vibrancy in high pedestrian retail areas; the city is discussing how to widen pedestrian allowances and permit more patio and outdoor retail space
- Likely going to be more opportunity for pop-up retail to fill in gaps in available retail offerings

Property Management observations

- Tenants are contemplating a return to the office as the COVID-19 lockdown eases
- Building management teams working in difficult circumstances – a pandemic that spreads through close contact, shared surfaces, and airborne droplets
- As people across the globe shelter-in-place and work remotely, multi-residential and health care assets are under more strain than ever before

- Managers of office and retail assets are struggling to ensure buildings remain in good condition for when occupants return
- People facing extraordinary challenges while adjusting to this new normal, and so are buildings; just like people, buildings have 'coping mechanisms' to help them identify and overcome these unprecedented challenges, and having the right ones makes all the difference

Multi-Residential market observations

- After five consecutive years of sales declines, the Calgary housing market was improving in the early stages of 2020. Sales at the end of February were up 23%, year-over-year, but in mid-March the COVID-19 pandemic, coupled with a sharp decline in oil prices, drastically changed the real estate landscape in the city. At the end of March, sales had declined 11%, year over year; by the end of April, sales had plunged 64%. "On an annual basis, prices in 2020 are expected to decline by nearly three per cent," according to Ann-Marie Lurie, chief economist at the Calgary Real Estate Board
- Rental assistance came early for residential renters; only 3% to 4% of rent wasn't collected in April
- Most sale transactions are on hold
- More interest in development sites as investors are looking to get sites at the right price point

Investment market observations

- Investors and activity remain relatively quiet; capital is available for advantageous, strategic or well-priced assets, if they become available
- Multi-tenant industrial with a stable tenant roster remains the most desired asset class
- Debt remains affordable and available

Valuation market observations

- Multi-Residential is busy for appraisals
- Industrial has not had a lot of activity
- Composition of tenant types is going to determine how well a landlord will fare; large/national tenants will be more stable than smaller/local tenants

For more information please contact:

Susan Thompson
+1.403.232.4344
susan.thompson@avisonyoung.com

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Greater Edmonton Area

May 13, 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: May 1st to 8th, 2020

General trends, news and market observations

- COVID-19 cases in Edmonton remain low reporting about 20% of the number of cases as Southern Alberta with the number of daily new cases ranging between zero and four
- Employment dropped by 3.5% between March 2019 and March 2020, while unemployment increased to 7.9%
- Edmonton City Council approved a further $90.8 million in savings across all branches in response to COVID-19
- Local state of emergency was renewed on April 30th for another seven-day period
- The federally funded Site Reclamation Program, based on the clean-up of well, pipeline and oil and gas sites in Alberta, received nearly 18,000 applications in just four days; it is a great step in getting energy sector employees back to work
- Jason Kenney stated that the oil glut in Alberta's energy sector will be dealing with low prices for at least a year, if not longer, after COVID-19 is dealt with

Office market observations

- As restrictions begin to ease within the province, office groups are starting to establish their own return-to-workplace strategies while ensuring employee health and safety is a priority
- With schools closed for the remainder of the academic year, and daycares closed until further notice, there will likely be increased demand from some parents to continue remote-working initiatives until the end of the year

Industrial market observations

- The industrial market has not collapsed as there was only a negligible change in vacancy from March to April
- Positive leasing activity occurred through both south and west Edmonton as well as Leduc/Nisku during April
- Easier to find basic warehouse/shell space, but it continues to be difficult finding spaces for tenants with specific requirements (drive-thru wash bay, rail spur, crane capacity, large yards, etc.)
- Covenant is playing a large role in new leases with landlords unwilling to provide substantial free rent at start of lease term
- Many vendors have opted to refrain from selling and are holding on a bit longer until market stabilizes although aggressive offers are being considered with short conditional periods and quick closing

Retail market observations

- While the provincial government is set to ease restrictions on retailers, the public is cautious about rolling out the phases too quickly as evidenced by a petition to delay the opening of barbershops/hair salons next week given the near impossible nature of maintaining two metres of distance
- Rent collection for April has been estimated at about 50% to 60% for most shopping centres and roughly 25% for enclosed malls with May likely to see an even lower percentage of rents collected; there is general concern among landlords as they try to plan for a variety of scenarios
- Initiating new deals on both the landlord and tenant sides has proven difficult as both parties are generally focused on existing tenant deferral requests
- While not true in all cases, tenants with the “best” covenant have a greater tendency to use their brand as leverage against the landlord in order to get rent breaks, or to simply refuse to pay rent at all; this behaviour has made it challenging for some landlords to offer relief to smaller, independent businesses who actually need it
- For restaurants, focus has been geared towards figuring out how to operate safety and profitably while only being allowed 50% customer capacity
- Tenants are increasingly becoming frustrated with un-cooperative landlords, leading to some walking away from existing space while looking for new options; this will likely be a factor in some well-positioned real estate becoming available
- Some optimism has been injected into the market as nice weather arrives and the May 14th reopening date draws nearer

Multi-Residential market observations

- After seeing continued activity in terms of new condo and apartment building starts in March, residential construction on those projects continues to move forward
- While the number of residential sales declined as homeowners decide to wait out the storm, prices remained relatively stable overall on the sales that did occur
- Edmonton-based developer Beaverbrook Communities, planners of the Sustainability Plaza at the Hills of Charlesworth in SE Edmonton, beat out international competition to win the RTPI international award for planning excellence on April 30th

For more information please contact:

Spencer Schulze
+1 780.429.7555
spencer.schulze@avisonyoung.com

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Greater Ottawa Area

May 13, 2020 | Canada

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Period covered: May 1st to 8th, 2020

General trends, news and market observations

- The Ottawa Farmer's Market is selling produce through a new website to prevent the spread of COVID-19. Online purchases can be made for delivery or pickup
  - 16 vendors are: Roots Down Organic Farm, Burrell Farm, Bushgarden Farm, Backyard Edibles, Castor River Farm, La Bergerie des Sables, Buzzz Honey Products, Blue Shoes Honey, Maple Country, bakery House of Pain, smokehouse Le Petit Brûlé, Milkhouse Farm + Dairy, Kricklewood Farm, Hall's Apple Market, Raon Kitchen and Dominion City Brewing Co.
- With nicer weather approaching, more people are window visiting their loved ones in retirement homes. The City of Ottawa is banning all window visits because people are not practicing social distancing and can easily spread COVID-19
- On May 4th, some Ontario retailers reopened, but are required to follow strict protocols such as delivery and curbside pickup
- On May 9th, the National Capital Commission is reopening parks and trails, with users required to keep two metres between people walking or biking

Office market observations

- The federal government (PWGSC) is moving ahead with plans for a large mixed-use development at 599 Tremblay Rd. in East Ottawa, issuing an RFP for a developer to design, build and manage the 1.6-msf project on a 25-year land-lease basis
- New office lease listings have begun to appear
- Deals in progress are mostly still continuing, although delayed
- Lease renewals are being completed – but the process is taking longer

Industrial market observations

- Tenant activity continues as companies are still looking for industrial space

Retail market observations

- Ottawa Print Services is rebranding itself as SINIX PPE after it changed its business to printing COVID-19 safety posters, banners, safe distance floor decals and signage for businesses that remained open. The company has requested help from another local printing company to meet its orders. Ottawa Print Services plans to double its output of 15,000 units per week
- Discussions of new developments are starting to revive, but nothing specific is in the works as of yet
- National chains are proceeding with projects, although on a more cautious footing

Investment market observations

- Crown Realty Partners acquired a seven-property portfolio in Ottawa from CanFirst Capital Management for $56 million. The portfolio consists of 415,000 sf across 23 low-rise flex-office buildings and is 90% occupied
- Some lease listings may be converted into sale listings as owners decide to sell

For more information please contact:

Amanda La
+1 613.696.2731
amanda.la@avisonyoung.com

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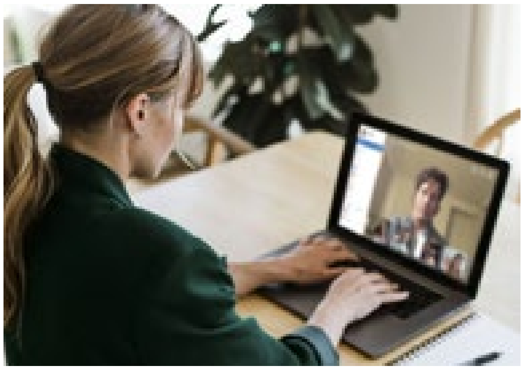

Can Flex Occupiers, Operators & Owners Look Too Far Into the Future?

April 7, 2020

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