Canadian cap rate and investment trends

Q2 2024

AVISON YOUNG

Investor enthusiasm is steadily increasing

The commercial real estate market is set for ongoing improvement throughout the year, signaling a notable turnaround from the challenges of the previous year. On June 5, the Bank of Canada lowered rates for the first time since March 2022 – a welcome move that economists were largely expecting, given the economic slowdown and easing inflation. Meanwhile, Canada's unemployment rate rose to 6.4% in June 2024, exceeding forecasts of 6.3%, rising 1.3 percentage points since April 2023 and reaching the highest level since January 2022. The softening job market is a serious concern for the Bank of Canada, increasing the probability of more rate cuts.

Offering additional confidence amongst the investor community and playing a key role for the direction of cap rates moving forward is bond yield compression. Expectations are that 10-year government bond yields will decrease 50 bps by the end of 2024 to 3.00%, before compressing further to 2.75% by the end of 2025 and to 2.50% by year-end 2026.

Extended price discovery periods between buyers and sellers were a significant factor in the lack of investment trades. However, throughout Q2 2024, there have been clear indications that the market is gradually shifting as overall sales activity increased, with Toronto and Montreal leading the charge. Over the quarter, Canadian private investors again dominated acquisitions of income-producing properties, representing 82% of transactions, up from 73% in Q1 2024. Canadian institutional investors made up a modest 5%, down from 8% the previous quarter. The long-term investment theme continues, which is an ongoing undersupply coupled with surplus demand.

Industrial activity, which previously dominated the market, saw a decrease in pitches throughout Q2 2024, as limited product availability has created a scarcity of opportunities. In previously stalled asset classes, our brokers are observing increased activity, particularly in office and retail pitches, with the expectation that this will continue throughout the second half of the year.

Canada's population growth is accelerating at a record pace, driving increased demand for rental properties nationwide. Multi-residential remains largely dominated by private buyers but there is a growing sentiment that institutional investors will re-enter the market in Q3. With these positive developments, coupled with anticipated rate cuts and declining bond yields, investor enthusiasm is steadily increasing.

Investors remain keenly interested in upcoming Bank of Canada rate announcements. The positive trends observed in the first six months of 2024 have boosted investor confidence and are expected to drive increased activity for the rest of the year.

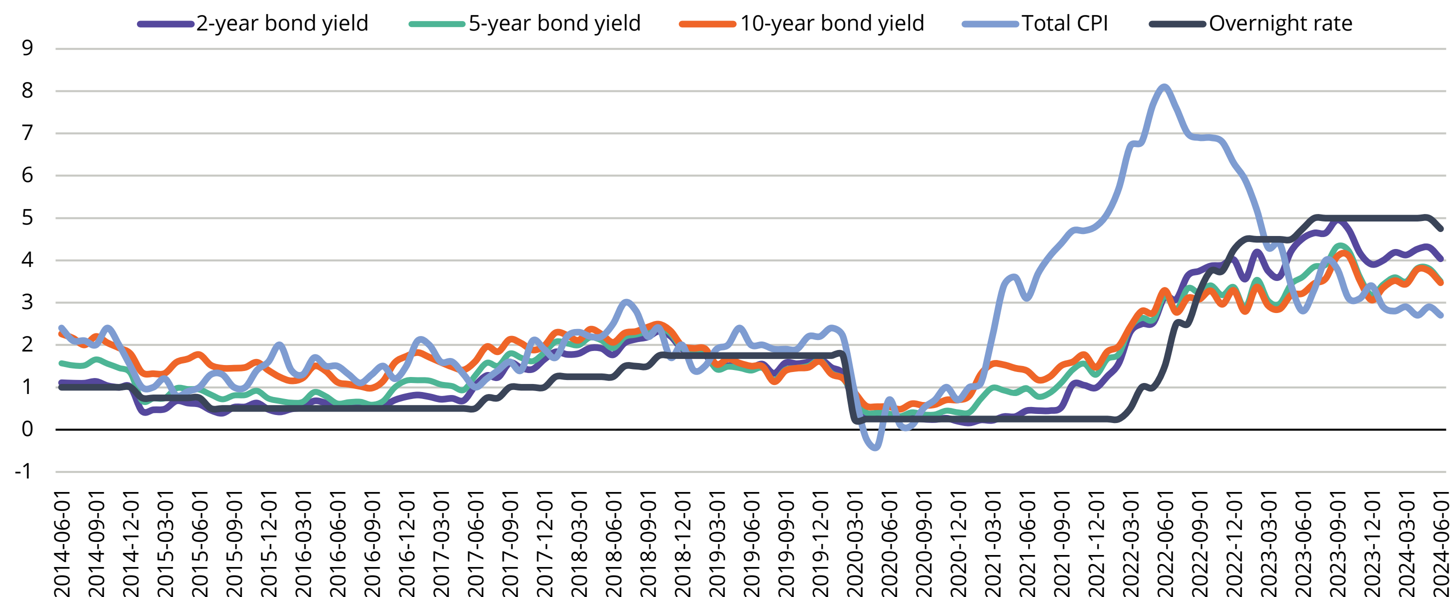
Matthew McWatters, AACI, P. App.
Principal, Managing Director &
Canadian Leader, Valuation,
Advisory and Property Tax Services

Policy rate cuts set market in motion

On June 5, the Bank of Canada (BoC) became the first central bank of the G7 to cut its policy rates this year, from 5.0% to 4.75%. Only the European Central Bank (ECB) followed suit on June 6, and rate cuts from the U.S. Federal Reserve are highly unlikely before September, according to the latest surveys of international economic forecasts. On June 12, Federal Reserve Chair Jerome Powell reiterated to U.S. Congress that they still want to see more progress of inflation moving sustainably closer to the 2% target before cutting interest rates.

There is a limit to how far the BoC can diverge from the Fed. In the unlikely event that the Fed does not cut rates at all in 2024, the Bank would deliver fewer cuts. The Canadian economy is unsynchronized with the U.S. in terms of inflation and economic momentum. The U.S. GDP growth has outperformed its peers, but this should moderate before year end, with Canada's forecasted GDP reacceleration in Q4 2024.

Inflation, interest rates and bond yields



Source: Bank of Canada

The increases to the Bank of Canada policy rate over the past 24 months have caused intense ripple effects throughout the commercial and residential real estate markets – for example, by challenging the industry's ability to deliver new or renovated product to end users. The prospect of meaningful future interest rate cuts cannot come soon enough."

Mark Fieder
Principal and President,
Canada

We are seeing a noticeable increase in activity across all asset sectors, as many investors see the first drop in interest rates as a signal to get capital back into the market."

Joe Almeida
Principal,
Managing Director
Toronto, ON

Investment market trends

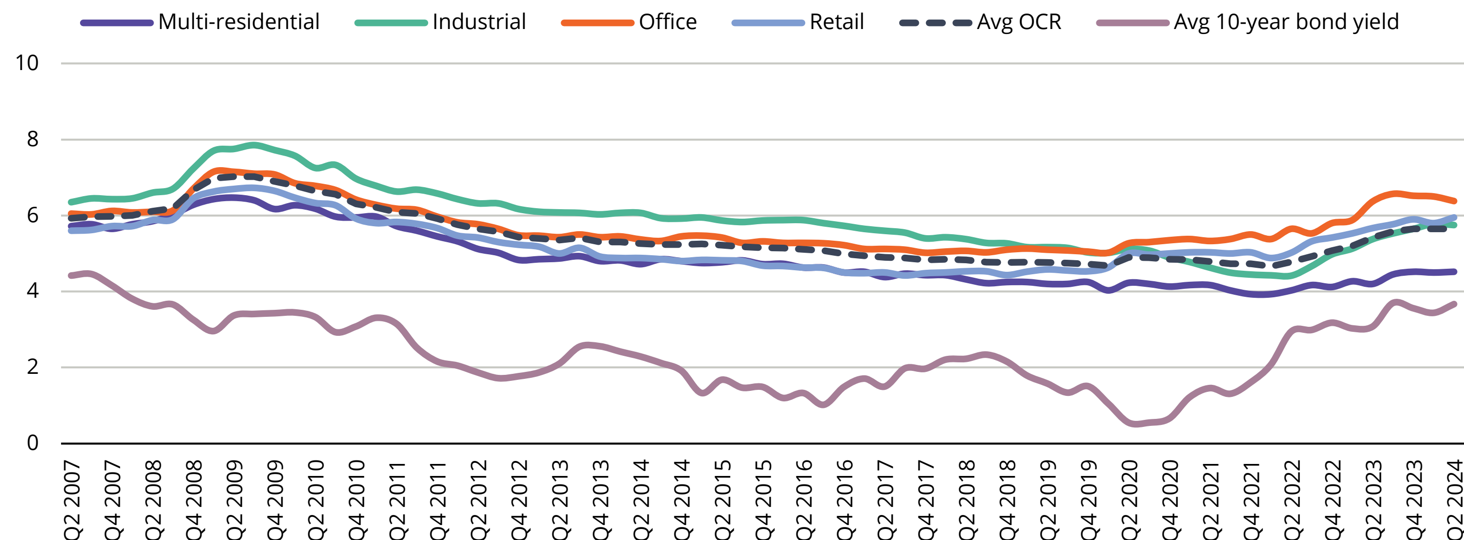
Policy rate cuts set market in motion

At the June 5 announcement, BoC governor Tiff Macklem indicated it would be reasonable to expect further cuts, provided that inflation continues to ease closer to target. The BoC took note of sustained disinflation, lower than expected GDP growth in Q1 2024 and weakening job market. Many economists now believe that the Bank will cut at every remaining meeting this year, meaning the policy rate will finish the year at 3.75%.

Standing at 3.47% in June, the 10-year government bond yield is expected to lose 50 bps to end 2024 at 3.00%, before compressing to 2.75% by the end of 2025 and to 2.50% year-end 2026. This will provide more room to manoeuvre for investors, stimulate transaction velocity and help stabilize cap rate expectations.

As of Q2 2024, cap rates for multi-residential products remained stable and well below benchmark asset class OCRs. Stability prevails this quarter, as investors are still evaluating the impact of the BoC's first of what is expected to be several more cuts.

Historical rate of returns trends



Source: Altus ITS and Bank of Canada

Canadian cap rate trends*

Asset class	Benchmark cap rate
	Q2 2024
Multi-residential	
High density in urban centre	4.40%
Low density in urban centre	4.65%
High density suburban	4.55%
Low density suburban	4.80%
Industrial	
New single-tenant	5.95%
Mature single-tenant	6.40%
New multi-tenant	6.15%
Mature multi-tenant	6.55%
Office	
Downtown class A	7.20%
Downtown class B	7.90%
Suburban class A	7.60%
Suburban class B	8.25%
Retail	
Regional mall	6.40%
Enclosed community mall	6.90%
Neighbourhood strip mall	6.25%
Single-tenant retail	5.90%
Street-front retail	6.10%

*Unweighted average of benchmark cap rates across all markets surveyed.
Source: Avison Young Q2-2024 Cap Rate Survey

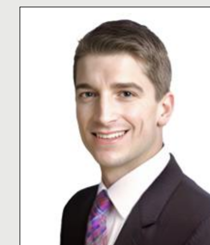
Debt market trends

Current first mortgage lending conditions				
Maximum LTV	**Conventional:** 75% **CMHC MLI:** 95%	70%	60%	70%
Spread over 10-year GoC bond yield	+85 bps	+175 bps	+250 bps	+200 bps
Preferred term	5 years	5 years	5 years	5 years
Longest amortization	50 years	30 years	30 years	30 years
Premium/discount to appraisal cap rates*	+25 bps	+25 bps	+50 bps	+25 bps
Cause of discrepancy from appraisal values	Cap rate	Rents	Vacancy	Cap rate
Cost of non-recourse debt	+0 bps	+75 bps	+100 bps	+50 bps
Change from previous quarter lending conditions				
Loan applications	=	▼	▼	▼
Mortgages in arrears	=	=	▲	=
Mortgages in default	=	=	▲	=
Expected next quarter lending conditions				
Debt cost outlook	▼	=	▲	=

Multi-residential Industrial Office Retail

*Average premium (+) or discount (-) applied by underwriters to the cap rates seen in appraisal reports completed by accredited appraisers.
Source: Avison Young Q2-2024 Cap Rate Survey

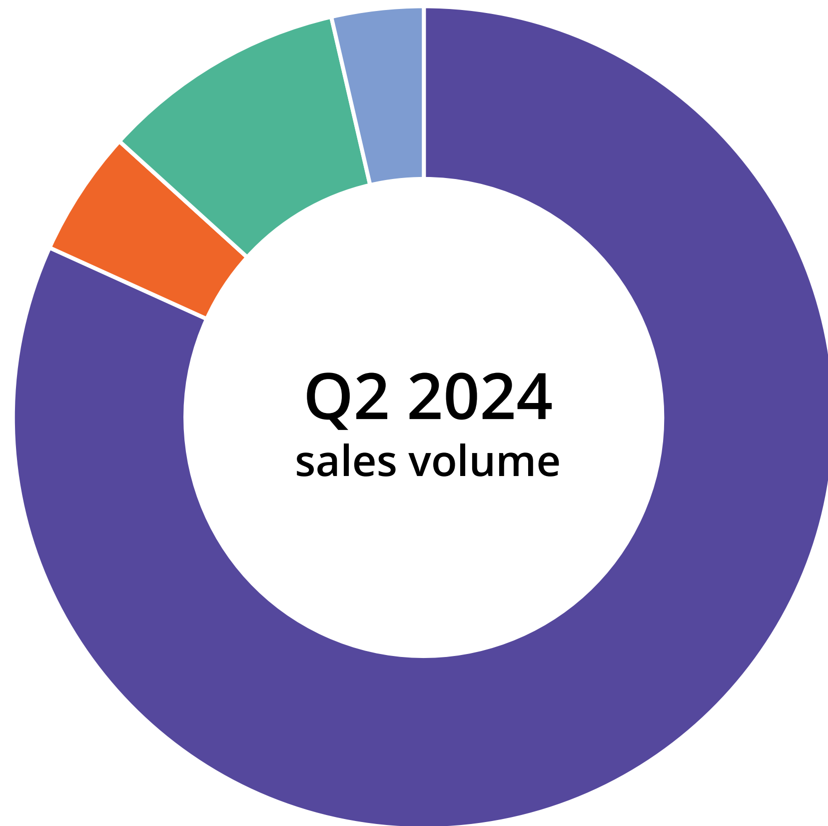
Canadian bond yields declined in June, reflecting dovish expectations for North American central banks to bring down interest rates. Lenders' preferred allocation continues to be for income-producing industrial, multi-residential and grocery-anchored retail. Capital availability for land and office remains in short supply and reserved for strong sponsors at lower leverage. The recent changes to CMHC's processes and policy continue to add layers of complexity to Borrowers' strategic plans with the cap on the MLI Select Points for Building Efficiency. This now effectively mandates an affordable component to be added in all new construction rental projects insured by CMHC should a borrower want to obtain a 50-year amortization period. Lenders are beginning to indicate increased lending appetite which may help improve the borrowing landscape as we head into the second half of the year."



Brian Marshall
Vice President,
Debt and Equity Finance
Vancouver, BC

Overall sales activity

Sales volume by buyer profile – income properties only



Canadian private investors
82%

End user
10%

Canadian institutional investors
5%

Other (i.e., government, foreign investors, developers)
3%

82%

of acquisitions were by private investors

Source: Altus Data Studio

"

As institutional investors sit on the sidelines, private investors have stepped up to mitigate the year over year decline in transaction activity."

Liam Brunner
Principal and Senior Director, Valuation and Advisory Services
Calgary, AB

"

More and more public sector players, such as cities and government agencies, are entering the transactional market. These transactions fall outside traditional market value parameters and are generally made on an all-cash basis and with minimal conditions, reducing deal uncertainty while often improving final pricing."

Robert Metcalfe
Principal and Vice President, Capital Markets
Montreal, QC

Overall sales activity by real estate asset

National investment sales volumes

Billions $

Multi-residential | Industrial | Office | Retail

18 16 14 12 10 8 6 4 2 0

Q2 2020 Q3 2020 Q4 2020 Q1 2021 Q2 2021 Q3 2021 Q4 2021 Q1 2022 Q2 2022 Q3 2022 Q4 2022 Q1 2023 Q2 2023 Q3 2023 Q4 2023 Q1 2024 Q2 2024

$15.4 B

$16.5 B

$12.4 B

Source: Altus Data Studio

"

We have clear indications that the market is slowly turning, with transactions closing after a long period of price discovery."

Jeff Flemington
Principal,
Industrial, Life Science, Office
Toronto, ON

"

With interest rates finally beginning to come down, borrowing costs for businesses are decreasing. This reduction in interest rates can help spur business investments and expansions, further increasing the demand for industrial and commercial spaces. Lower borrowing costs can also make real estate investments more attractive, encouraging activity across all sectors of the market."

Mark Sinnett
Principal,
Capital Markets
Montreal, QC

Overall sales activity by geography

National investment sales volumes

Billions $

Vancouver | Edmonton | Calgary | Toronto | Ottawa | Montreal

18
16
14
12
10
8
6
4
2
0

Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 | Q1 2024 | Q2 2024

Investment sales
Multi-residential, industrial, office and retail

Source: Altus Data Studio

Developers in the nation’s capital are addressing historically high office vacancy rates by leading Ontario in office-to-residential conversions. Multiple developers are on their second conversions, demonstrating this as a viable solution for the housing crisis and downtown revitalization. Although holding costs, mainly due to property taxes, are higher than building new, these new units can reach the market faster. With a strategic plan, the property tax burden can be mitigated.”

Erin Johnston
Principal, Senior Vice President, Property Tax Services
Ottawa, ON

Sector cap rate and investment trends

Analysis of benchmarks and drivers of cap rates for multi-residential, industrial, office and retail investment properties across Canada.

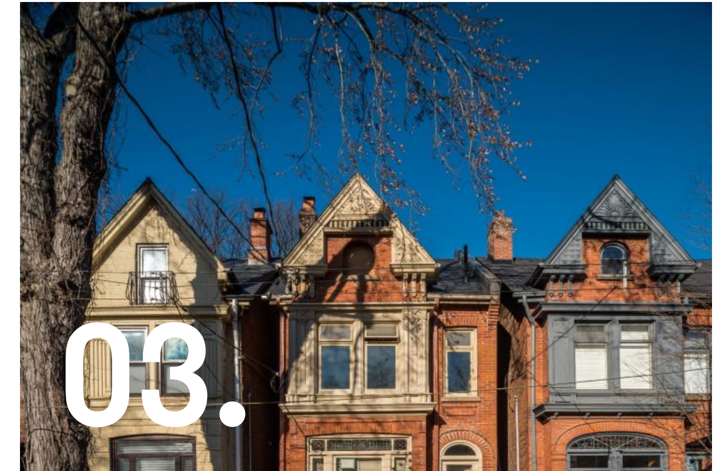
Multi-residential trends to watch

CMHC prioritizing affordability

Effective June 19, 2024, the CMHC MLI Select program was amended to reduce the points achievable under the energy efficiency criteria from 100 to 50. To qualify for the maximum benefit under the program, projects will now require affordability/accessibility components. Loan applications spiked leading up to the deadline as developers relying on the energy efficiency criteria tried to avoid amending their plans to include affordable or accessible units. This policy may delay construction for developers whose project feasibility assumed plans and proformas with less or no affordability or accessibility component to qualify for the maximum benefit.

Bottoming of housing starts trend

CMHC released the Housing Market Outlook for Spring 2024, which positioned 2024 as the bottoming of the national downward trend in housing starts from 2021-2023 highs, anticipating a rebound in 2025-2026 fueled by cuts to financing costs. The high interest rates of the last 18 months are expected to have a lagged effect on supply and be a headwind to ramping up in 2025-2026. As for 2024, trend continuation of higher rents and lower vacancy rates is forecasted, due to the sustained unaffordability of home ownership pushing households to rental markets, and the lack of supply to absorb this, on top of Canada's population growth.



Suburban advantage

Sentiment for suburban multi-residential assets is on the rise, with some markets reporting overwhelming investor interest for the suburbs. This is fueled by the private investor segment, which remains the most active buyer type. Discounted valuations in the suburbs lowers the hurdle for smaller private groups who would otherwise be priced out or under-capitalized to compete in urban centres. There are positive fundamentals for suburban markets as affordability and population growth push demand and rent growth to the peripheries of cities. This is compressing valuations and cap rates between suburban and urban multi-residential markets.

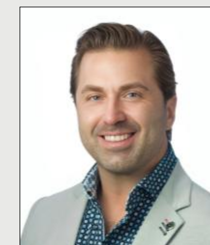
Multi-residential cap rate survey results

	VAN	EDM	CAL	TOR	OTT	MTL
Average high-density urban centre	4.25%	4.85%	4.75%	3.90%	4.50%	4.25%
Average low-density urban centre	4.30%	5.25%	4.80%	4.00%	5.00%	4.50%
Average high-density suburban	4.25%	4.85%	4.90%	4.00%	4.50%	4.75%
Average low-density suburban	4.80%	4.85%	4.90%	4.25%	5.00%	4.95%
Q3-2024 expectations	=	▼	=	▼	▼	▼

7%
6%
5%
4%
3%
2%
1%
0%

⊤ Upper end ⊥ Lower end - - - National average

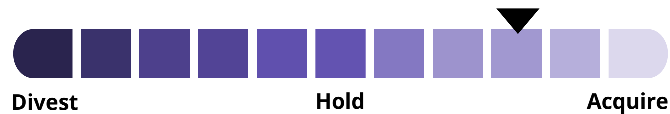
Toronto represents the lowest multi-residential cap rates across all subtypes and submarkets, beating out Vancouver which has historically exhibited the lowest multi-residential cap rates in Canada. Edmonton cap rates remain among the highest across all subtypes which reflects investors' perceived risks of the city's high rental density (i.e., people per rental unit) and expected high volume of future rental supply. Calgary cap rates remain below 5.0% across subtypes as investors favour the city's rent growth potential, which is being driven by massive population growth. Our survey suggests cap rates will decline in the near term across many markets. Investors are keenly following the Bank of Canada rate announcements and expectations going into the second half of 2024."



Chris Chornohos, AACI, MRICS
Principal and Director
Valuation and Advisory Services
Calgary, AB

Multi-residential cap rate survey results

Market sentiment meter



Sale pitches compared to previous quarter

Active market participants

Top prospective buyers

1. Private investors
2. Developers
3. Non-profit housing organizations

Top active sellers

1. Institutional funds
2. REITs
3. Private investors

Motivations of acquisitions

1. Speculating on asset value appreciation
2. Hold for redevelopment
3. Long-term income production

Motivations for dispositions

1. Mortgage renewal or due
2. Taking profit on property value
3. Investment portfolio strategy

Dealmakers and dealbreakers

1. Favourable financing (e.g., VTB, all-cash deal)
2. Motivated seller
3. Rent growth potential
4. Sentiment for multi-residential real estate
5. Property-specific fundamentals

1. Obtaining financing
2. Market price volatility
3. Inflated list price
4. Underperforming rents with low turnover
5. Property location

Canada's national multi-residential market remains tight with vacancy rates at multi-year lows and upward trending rents. As Canada's population continues to grow at a record pace, demand for rental product across the country also remains strong. Although sales volume has declined, prices per unit held relatively steady due to changes in deal structures and some upward pressure on multi-residential cap rates in Q2. With strong fundamentals and comparatively cheap debt, multi-residential cap rates and pricing will likely continue to stabilize throughout the remainder of 2024."

Mike McFarlane, AACI, P.App., PLE
Principal and Director
Valuation and Advisory Services
Toronto, ON

Industrial trends to watch

Post-COVID turnovers

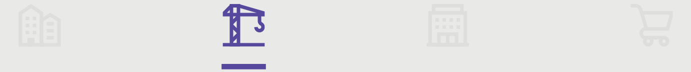
The e-commerce boom combined with supply chain disruptions during the COVID era had rushed logistics and distribution companies to secure warehousing space as soon as possible, against a backdrop of acute space shortage. The 3-to-5-year leases signed during this period at historically high rental rates are gradually expiring. Tenants who may have overstocked on space are now reviewing their requirements on a backdrop of significantly more availabilities and bargaining power than in 2020-2022. As market conditions stabilize, it is a good time to proceed with right-sizing, relocations and rental rate negotiation strategies.

Smaller is better

The COVID-related boom in logistics and distribution activity has prompted development of large fulfilment centres and big-bay projects since 2020. As demand for this market segment cools off, there are more lease and sub-lease options across the country. Vacancy rates for big-bay industrial are now higher than for small-bay. Demand for small-bay is positive, but new supply is limited due to higher construction and land costs. This supply-demand imbalance has spurred investor interest. Developers are trying to adapt their offering to meet demand from smaller tenants, either by subdividing or developing condos, as has long been done in Vancouver.

Sound fundamentals

The steady increase in vacancy rates and fall in rents since the start of 2023 is a correction of a market that overheated. Otherwise, industrial market fundamentals remain sound, and the economic drivers of demand for industrial space are pointing in the right direction for 2025: falling interest rates, weaker loonie, GDP growth forecast at 1.8% (1.0% in 2024) and industrial output at 1.7% (0.2% in 2024). The incremental progression of e-commerce as well as the development of a domestic battery industry, the life sciences, and energy sector prospects are positive drivers. Noting the slowdown in new developments since 2023, supply may not be sufficient to meet a significant resurgence in demand.



Industrial cap rate survey results

	VAN	EDM	CAL	TOR	OTT	MTL
Average new single-tenant	4.85%	6.75%	5.50%	5.75%	6.50%	6.25%
Q3-2024 expectations	=	=	=	=	=	=
Average mature single-tenant	5.25%	7.25%	6.50%	6.15%	6.75%	6.50%
Q3-2024 expectations	=	=	=	=	=	=
Average new multi-tenant	5.15%	7.00%	6.00%	5.85%	6.50%	6.25%
Q3-2024 expectations	=	=	=	=	=	=
Average mature multi-tenant	5.50%	7.50%	6.50%	6.20%	6.75%	6.75%
Q3-2024 expectations	=	=	=	=	=	=

9% 8% 7% 6% 5% 4% 3% 2% 1% 0%

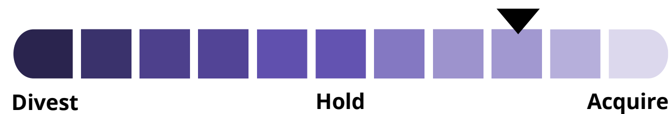
Upper end | Lower end | National average

"As the market reverts back to more normalized underwriting parameters in the industrial sector, we have witnessed a slow and steady increase in going-in caps rates across the country."

Tim Loch, AACI, P. App.
Principal, Senior Vice President and Practice Leader, Investment Valuation and Advisory, Toronto, ON

Industrial cap rate survey results

Market sentiment meter



Sale pitches compared to previous quarter

Active market participants

Top prospective buyers
1. Private investors
2. Owner-occupiers
3. REITs

Top active sellers
1. Pension funds
2. Other institutional funds
3. REITs

Motivations of acquisitions
1. Gain on tenant lease renewals or expirations
2. Long-term income production
3. Speculating on value appreciation

Motivations for dispositions
1. Mortgage renewal/due
2. Take profit on property value
3. Rebalancing for investment portfolio strategy

Dealmakers and dealbreakers

1. Favourable financing (e.g., VTB, all-cash deal)
2. Sentiment for industrial real estate
3. Property-specific fundamentals
4. Long weighted average lease term
5. Adjusting the list price

1. Inflated list price
2. Obtaining financing
3. Location of the property
4. Age, condition and specifications of building
5. Capital inadequacy

Activity remains muted in the market heading into summer even after the widely anticipated June rate cut. A handful of larger deals have transacted, some motivated by the change is capital gains tax, but activity has not rebounded to long term averages. As we look through the summer all eyes will be on the next two BoC rate decisions and the wall of capital on the sidelines waiting to jump back into the market."

Michael Farrell
Principal,
Industrial
Vancouver, BC

Office trends to watch

Opportunistic buyers

Investment activity in office real estate is being led by opportunistic local buyers acquiring office assets at a discount. These buyers have the competitive advantage of specialized local market intelligence which translates into an efficient lease-up strategy. In some cases, the buyer will occupy some of the office space to support their own business operations. For remaining vacant space, the buyer can tap into their strong network of prospective local tenants to lease up the space. The discounted acquisition cost also gives the buyer flexibility to offer more competitive rents to lease-up the space or pursue a conversion.

Lingering obstacles

Office market dynamics present several headwinds to deal activity. Investors perceive the predominant risks as the availability and cost of financing, and uncertainty of lease rates. With more instances of office real estate trading below replacement cost, there is less product on the market as some owners are holding to weather the storm and avoid a realized loss. For those owners who are willing to sell, the challenges include revising expectations downward of what their asset is worth, finding opportunistic buyers with sufficient liquidity, and competing for capital that has turned to sectors with superior sentiment, such as data centres.

Active suburbs

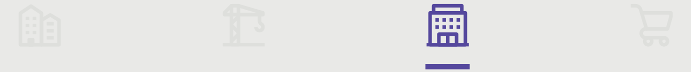
Downtown office cap rates are more challenging to estimate than suburban, as they trade less frequently and show less transaction data. Suburban office fundamentals have also been less volatile. Suburban office availability has stabilized nationally at 16%, but Downtown availability has surpassed suburban by nearly 400 bps, higher than the latter since Q4 2020. Since Q1 2020, suburban vacancy rose by ±160 bps as opposed to ±685 bps Downtown. Net absorption hovers around zero for suburban offices, and -3% Downtown. Trophy offices are a bright spot for Downtown markets, with stable vacancy between 5-6%, and lease durations rising to pre-COVID levels.

Office cap rate survey results

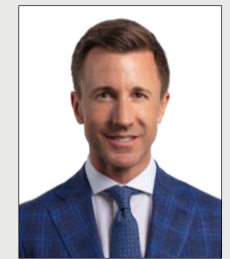
	VAN	EDM	CAL	TOR	OTT	MTL
Average downtown class A	6.30%	8.50%	8.00%	6.25%	7.00%	7.00%
Average downtown class B	6.75%	9.50%	9.00%	6.85%	7.25%	8.00%
Average suburban class A	6.30%	9.00%	8.00%	7.50%	7.00%	7.85%
Average suburban class B	6.50%	9.50%	9.25%	7.90%	7.25%	9.00%
Q3-2024 expectations	=	=	=	=	=	=

Y-axis: 0%, 2%, 4%, 6%, 8%, 10%, 12%

⊤ Upper end ⊥ Lower end - - - National average

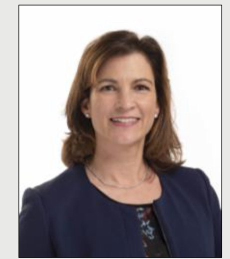


"With the absence of institutional capital chasing office properties, cap rates will remain high, and therefore, more inviting for new investors to the office market."



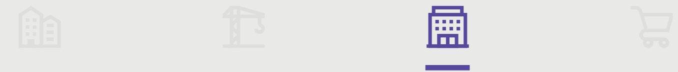
Cory Wosnack
Principal,
Managing Director,
Edmonton, AB

"The obsolescence of certain office assets has been accentuated by our new work habits. To become competitive again, these buildings require major investment."

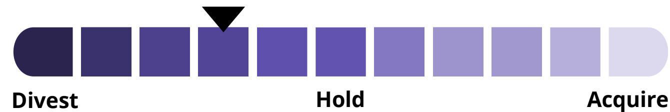


Marie-France Benoit
Principal,
Director, Market intelligence
Canada

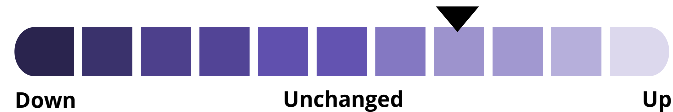
Office cap rate survey results



Market sentiment meter



Sale pitches compared to previous quarter



Active market participants

Top prospective buyers

1. Local private investors
2. Developer
3. Owner-occupier

Top active sellers

1. Pension funds
2. REITs
3. Other institutional funds

Motivations of acquisitions

1. Hold for redevelopment or conversion
2. Value-add opportunities (e.g., lease-up strategy, property management)
3. Owner-occupier

Motivations for dispositions

1. Mortgage renewal or due
2. Underperforming asset
3. Distressed sale

Dealmakers and dealbreakers

1. Motivated seller
2. Adjusting the list price
3. Long weighted average lease term
4. Class/quality of the building
5. Recent capital upgrades

1. Inflated list price
2. Sentiment to office real estate
3. Short weighted average lease term
4. Obtaining financing
5. Low building occupancy

"Institutional landlords have managed to maintain their face rates by offering generous tenant incentives and investing in the amenities and experience in their building, but this strategy cannot be sustained indefinitely. Risks related to the costs and delays of leasing improvements are real but should somewhat be mitigated by lower interest rates in time to meet the requirements of tenants implementing firmer return-to-office policies.

Patrick Laurin
Principal,
Managing Director
Montreal, QC

Retail trends to watch

Softening consumer spending

RBC Economics reports softer consumer spending data on a per-capita basis, in lock-step with declines in GDP per capita. Discretionary goods spending continues to stall near November 2022 levels. Discretionary services, which have been on an uptrend from 2023, are fading as travel and restaurant spending pares gain. A major factor is interest rates, which remain high even after the Bank of Canada kicked off an easing cycle in June. Debt servicing costs as a share of household income are anticipated to remain elevated, and RBC projects per-capita spending to be muted until Q4 2024.

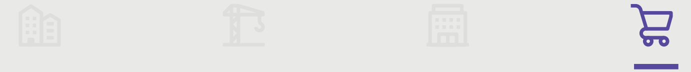
Demographics driving demand

Canada's demographics are enhancing the prospects for retail real estate. A growing and diverse population driven by immigration is increasing consumer demand. Additionally, urbanization trends are concentrating populations in major cities, boosting demand for more urban retail developments to supplement or refresh the existing stock. As spending power grows among Millennial and Gen Z, "experiential retail" emphasizing engaging and immersive customer experiences will be key to compete. In the short-term, high costs of living weighing on households and their disposable incomes are a headwind to grocery retail investment, especially those with discount locations.

Supply crunch

The demand for retail assets is outpacing supply. While new major retail and mixed-use projects are underway across the major Canadian markets, this has resulted in older retail properties on redeveloped land being displaced. This phenomenon is creating opportunities for the remaining older retail sites to provide excellent holding income in the interim on the heels of a supply crunch, before capitalizing on the higher underlying land value upon redevelopment. This is also a window of opportunity for new, high-quality retail properties in good locations, which are ahead of this redevelopment trend and can get a head start on attracting top-tier tenants over a backdrop of strong leasing dynamics.

Retail cap rate survey results



	VAN	EDM	CAL	TOR	OTT	MTL
Average regional mall	6.00%	7.25%	6.75%	6.00%	6.50%	6.00%
Q3-2024 expectations	=	=	=	=	=	=
Average community mall	7.00%	8.50%	6.75%	5.75%	6.50%	7.00%
Q3-2024 expectations	=	=	=	=	=	=
Average neighbourhood strip	5.75%	7.00%	6.30%	5.75%	6.75%	6.00%
Q3-2024 expectations	=	=	=	=	=	=
Average single-tenant retail	5.00%	6.50%	6.20%	5.25%	6.50%	6.00%
Q3-2024 expectations	=	=	=	=	=	=
Average street-front	4.50%	7.25%	6.50%	5.25%	6.50%	6.50%
Q3-2024 expectations	=	=	=	=	=	=

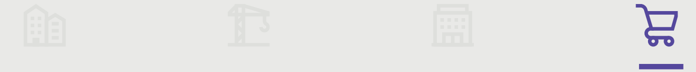
Y-axis: 0% 1% 2% 3% 4% 5% 6% 7% 8% 9% 10%

Legend: Upper end | Lower end | National average

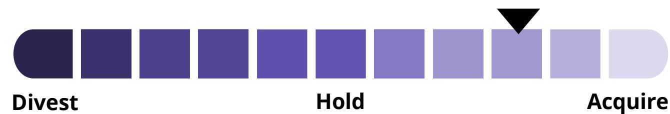
"The retail investor landscape remains dominated by private capital. Buyers have exhibited patience over the past 18 to 24 months resulting in a narrowing of the bid-ask gap. The recent Bank of Canada cut to the overnight rate has confirmed a peak in interest rates, though the pace of further decline is widely debated. Appropriately priced retail assets continue to generate multiple offers."

Reed Newnham
Principal,
Capital Markets
Edmonton, AB

Retail cap rate survey results



Market sentiment meter



Sale pitches compared to previous quarter

Active market participants

Top prospective buyers

1. Private investors
2. Developers
3. Institutional investors

Top active sellers

1. REITs
2. Pension funds
3. Private investors

Motivations of acquisitions

1. Long-term income production
2. Long-term lease rate growth
3. Hold for redevelopment

Motivations for dispositions

1. Take profit on property value
2. Rebalancing for investment portfolio strategy
3. Liquidity

Dealmakers and dealbreakers

1. Location (i.e., strong consumer demographics)
2. Lack of inventory
3. Long weighted average lease term
4. Adequate parking
5. Tenant based on current macroeconomic outlook (i.e., grocery-anchored, daily needs merchandise)

1. Location (i.e., weak consumer demographics)
2. Short weighted average lease term
3. Obtaining financing
4. Inflated list price
5. Tenant quality (i.e., non-AAA credit rating, durable or discretionary merchandise)

Retail investment continues to be active, bolstered by healthy investor confidence and favorable economic conditions characterized by strong population growth, increasing rental rates, and line of sight to declining interest rates. Specifically in southern Alberta, the retail investment market has demonstrated resilience in recent months, drawing significant interest from both local and out of province private capital investors who are acquiring properties that promise stable cash flow alongside near to medium-term rental rate growth."

Ryan Swelin
Principal,
Investment Sales
Calgary, AB

Summary cap rates by asset class and geography

Asset class	Vancouver		Edmonton		Calgary		Toronto		Ottawa		Montreal	
	Q2 2024	Q3 2024 Expectations	Q2 2024	Q3 2024 Expectations	Q2 2024	Q3 2024 Expectations	Q2 2024	Q3 2024 expectations	Q2 2024	Q3 2024 Expectations	Q2 2024	Q3 2024 Expectations
Multi-residential												
High density in urban centre	**4.25%**	Stable	**4.85%**	Down	**4.75%**	Stable	**3.90%**	Down	**4.50%**	Down	**4.25%**	Down
Low density in urban centre	**4.30%**	Stable	**5.25%**	Down	**4.80%**	Stable	**4.00%**	Down	**5.00%**	Down	**4.50%**	Down
High density in suburban area	**4.25%**	Stable	**4.85%**	Down	**4.90%**	Stable	**4.00%**	Down	**4.50%**	Down	**4.75%**	Down
Low density in suburban area	**4.80%**	Stable	**4.85%**	Down	**4.90%**	Stable	**4.25%**	Down	**5.00%**	Down	**4.95%**	Down
Industrial												
New single-tenant	**4.85%**	Stable	**6.75%**	Stable	**5.50%**	Stable	**5.75%**	Stable	**6.50%**	Stable	**6.25%**	Stable
Mature single-tenant	**5.25%**	Stable	**7.25%**	Stable	**6.50%**	Stable	**6.15%**	Stable	**6.75%**	Stable	**6.50%**	Stable
New multi-tenant	**5.15%**	Stable	**7.00%**	Stable	**6.00%**	Stable	**5.85%**	Stable	**6.50%**	Stable	**6.25%**	Stable
Mature multi-tenant	**5.50%**	Stable	**7.50%**	Stable	**6.50%**	Stable	**6.20%**	Stable	**6.75%**	Stable	**6.75%**	Stable
Office												
Downtown class A	**6.30%**	Stable	**8.50%**	Stable	**8.00%**	Stable	**6.25%**	Stable	**7.00%**	Stable	**7.00%**	Stable
Downtown class B	**6.75%**	Stable	**9.50%**	Stable	**9.00%**	Stable	**6.85%**	Stable	**7.25%**	Stable	**8.00%**	Stable
Suburban class A	**6.30%**	Stable	**9.00%**	Stable	**8.00%**	Stable	**7.50%**	Stable	**7.00%**	Stable	**7.85%**	Stable
Suburban class B	**6.50%**	Stable	**9.50%**	Stable	**9.25%**	Stable	**7.90%**	Stable	**7.25%**	Stable	**9.00%**	Stable
Retail												
Regional mall	**6.00%**	Stable	**7.25%**	Stable	**6.75%**	Stable	**6.00%**	Stable	**6.50%**	Stable	**6.00%**	Stable
Enclosed community mall	**7.00%**	Stable	**8.50%**	Stable	**6.75%**	Stable	**5.75%**	Stable	**6.50%**	Stable	**7.00%**	Stable
Neighbourhood strip mall	**5.75%**	Stable	**7.00%**	Stable	**6.30%**	Stable	**5.75%**	Stable	**6.75%**	Stable	**6.00%**	Down
Single-tenant retail	**5.00%**	Stable	**6.50%**	Stable	**6.20%**	Stable	**5.25%**	Stable	**6.50%**	Stable	**6.00%**	Down
Street-front retail	**4.50%**	Stable	**7.25%**	Stable	**6.50%**	Stable	**5.25%**	Stable	**6.50%**	Stable	**6.50%**	Stable

Source: Avison Young Q2-2024 Cap Rate Survey

Benchmark property descriptions

Multi-residential

High density urban centre: Downtown high-rise apartment building at the middle of its economic life with some renovations/modernizations. Typically, >6 storeys, in good condition with no deferred maintenance, and average finishing, amenities and tenant turnover for Downtown product. Considered based on a stabilized NOI.

High density suburban: High-rise apartment building at the middle of its economic life with some renovations/modernizations. Located in a major suburban municipality served by neighbourhood amenities and public transit. Typically, >6 storeys, in good condition with no deferred maintenance, and average finishing, amenities and tenant turnover for product in the same suburb. Considered based on a stabilized NOI.

Low density urban centre: Downtown low-rise apartment building at the middle of its economic life with some renovations/modernizations. Typically, ≤6 storeys, in good condition with no deferred maintenance, and average finishing, amenities and tenant turnover for Downtown product. Considered based on a stabilized NOI.

Low density suburban: Low-rise apartment building at the middle of its economic life with some renovations/modernizations. Typically, ≤6 storeys, in good condition with no deferred maintenance, and average finishing, amenities and tenant turnover for product in the same suburb. Considered based on a stabilized NOI.

Benchmark property descriptions

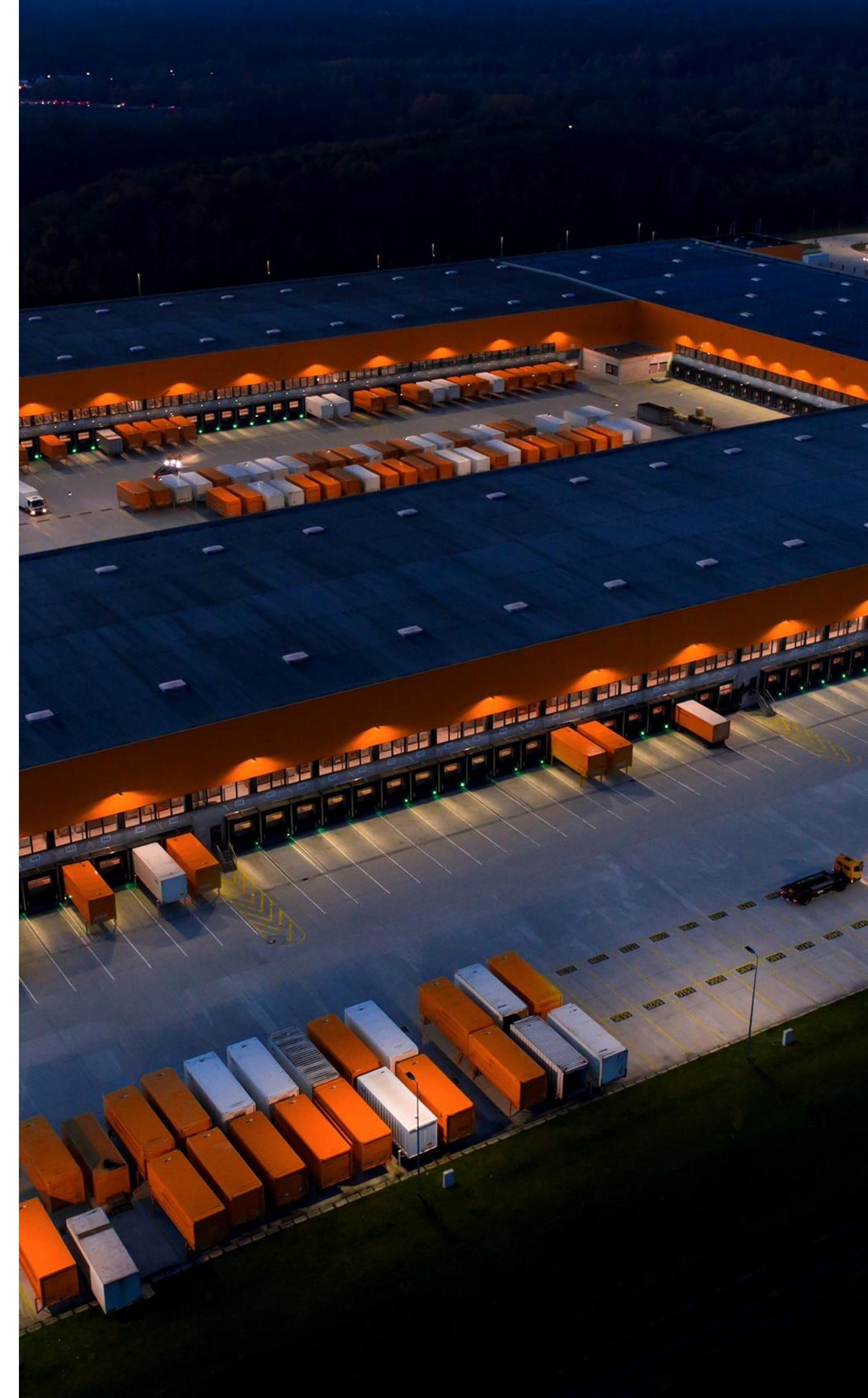
Industrial

New single-tenant: Concrete tilt-up warehouse ≤5 years old in a suburban industrial park 40 km from downtown and 10 km from rail, air and/or sea terminal(s). Access to a major highway. GLA of 100,000 sf, excess yard space, 32 ft clear height, 15% office buildout and several dock/grade doors. Considered based on a stabilized NOI.

Mature single-tenant: Concrete block warehouse >20 years old in a suburban industrial park 40 km from downtown and 10 km from rail, air and/or sea terminal(s). Access to a major highway. GLA of 30,000 sf, excess yard space, 22 ft clear height, 20% office buildout and a few grade doors. Considered based on a stabilized NOI.

New multi-tenant: Concrete tilt-up warehouse ≤5 years old in a suburban industrial park 40 km from downtown and 10 km from rail, air and/or sea terminal(s). Access to a major highway. Units 10,000-20,000 sf (160,000 sf total GLA). Clear height 28 sf, 20% office buildout and 1-3 doors/unit. Considered based on a stabilized NOI.

Mature multi-tenant: Concrete block warehouse >20 years old in a suburban industrial park 40 km from downtown and 10 km from rail, air and/or sea terminal(s). Access to a major highway. Units 2,000-8,000 sf (48,000 sf total GLA). Clear height 22 sf, 30% office buildout and 1-3 doors/unit. Considered based on a stabilized NOI.



Benchmark property descriptions

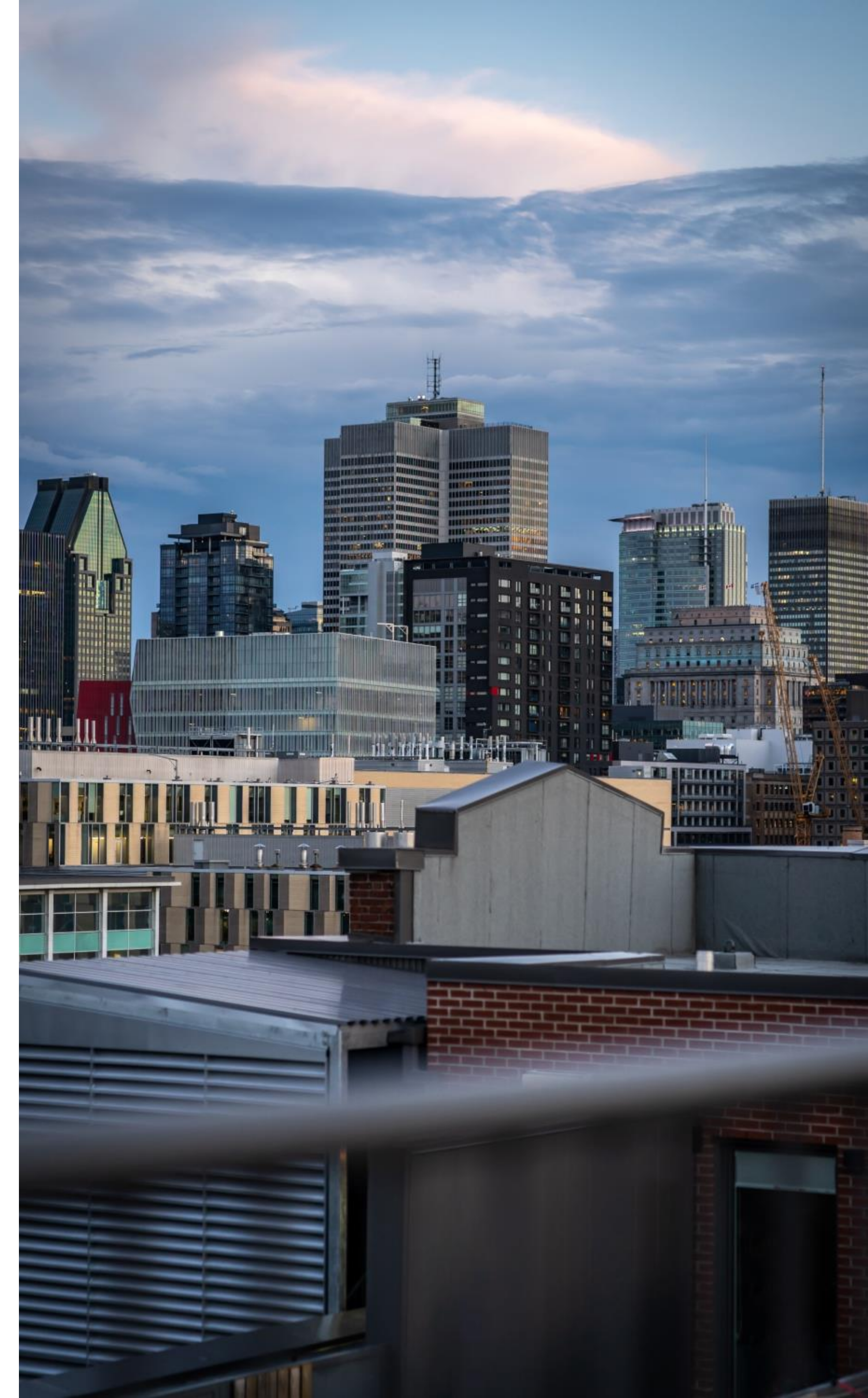
Office

Downtown class A: Located in the Downtown financial district, leased at above-average market rents to good covenant tenants. Typically, a newer and larger high-rise tower in good condition, with high-quality finish and amenities, reputable property management and in a premium location. Considered based on a stabilized NOI.

Downtown class B: Located in the Downtown financial district, leased at average or below market rents. Typically, an older mid- to high-rise tower in fair condition with few to no AAA-rated tenants. Tenants are typically seeking functional space at discounted rental rates. Considered based on a stabilized NOI.

Suburban class A: Located in the central business district of a major suburban municipality within 35 km of Downtown. Leased at above-average market rents to good covenant tenants. Typically, a newer low to mid-rise building in good condition, with high-quality finish and amenities, reputable property management and in a premium suburban location. Considered based on a stabilized NOI.

Suburban class B: Located in the central business district of a major suburban municipality within 35 km of Downtown. Leased at average or below market rents. Typically, an older low-to mid-rise building in fair condition and does not comprise AAA-rated tenants. Tenants are seeking functional space at discounted rental rates outside of the downtown core. Considered based on a stabilized NOI.



Benchmark property descriptions

Retail

Regional mall: Located in a high-density mixed-use residential and commercial neighbourhood in the urban core. Primary trade area of ±20 km with excellent parking and access via arterial road(s). Comprises 3 anchor tenants and a mix of national and local brands. Considered based on a stabilized NOI.

Community mall: Located at the intersection of 2 arterial roads in the central business district of a major suburban municipality. Primary trade area of ±10 km with excellent parking and good access via arterial road(s). Anchored by a major chain supermarket and at least one department/discount store with a mix of national and local brands. Considered based on a stabilized NOI.

Neighbourhood strip mall: Located at the intersection of 2 arterial roads in the central business district of a major suburban municipality. Primary trade area of ±5 km with good parking and access via arterial road(s). Anchored by a supermarket with a mix of regional and local brands. Considered based on a stabilized NOI.

Single-tenant retail: Fronting an arterial road within the urban core. Primary trade area of ±10 km with ample surface parking and multiple points of ingress/egress. The tenant is of investment grade covenant strength (e.g., Home Depot, Loblaws). Considered based on a stabilized NOI.

Street-front: Fronting a high street in a residential neighbourhood in the urban centre, but outside the Downtown core. Primary trade area of ±2 km with street parking and a few stalls at the rear via a laneway. Tenant is a local business (e.g., clothing boutique, café, salon). Considered based on a stabilized NOI.

For more market insights and information visit **avisonyoung.ca**

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