

PERSPECTIVE

QUARTERLY REPORT ON
COMMERCIAL REAL ESTATE CAP RATES Q1 2021
IN MAJOR CANADIAN MARKETS

Q1 2021 CAP RATES AND 2021 PERSPECTIVE

Industrial & Multi-family

While the majority of asset types are experiencing headwinds in the face of the pandemic, the Canadian industrial and multi-family sectors are continuing to get even hotter in 2021. For industrial, the lack of supply (first quarter national vacancy declined to 2.2%, a new record low) combined with the insatiable demand from tenant requirements related to e-commerce and warehousing will continue to put further upward pressure on land values and rents for large-bay distribution centres for the balance of 2021 and beyond. Regarding multi-family, a wide range of investors continue to look for opportunities to increase their holdings due to the long-term stability of the asset class, record low rates and the Federal Government's plan to continue welcoming immigrants at a rate of about 1% of the population of Canada post COVID-19.

Office

The office market continued to face strong headwinds in the first quarter of 2021 as national vacancy rose to 13.5%, up from 12% last quarter, with overall negative absorption totaling just over 5 million square feet across our major markets. However, we expect net office demand to grow by over 50 million square feet in Canada from 2022-2030, despite a 14.5% drag due to the impact of work from home. In the near term, significant supply coming from new construction and sublet space are factors that will impact buildings that do not offer long-term leases.

Retail

We expect essential and open-format retail will continue to outperform non-essential retail and enclosed malls over the first half of 2021, as much of the country still grapples with COVID-19 outbreaks. While the hope is that most retailers survive this difficult period, we do anticipate some additional bankruptcies in 2021. We hope to see a return to more normal consumer spending patterns in the back half of 2021, although the recovery is likely to be uneven with some sectors possibly even benefitting from pent-up demand. While some use-types have been opening new locations during the pandemic, leasing volume has been low overall. A pick-up in leasing is expected later this year, but we anticipate 2022 will prove an important year for filling retail vacancies. We will continue to assess retail risk on an asset-by-asset and tenant-by-tenant basis.

Hotel

More than any other sector, the hospitality market endured a very difficult 2020. The Outlook is for a better, but still challenging, year ahead as the Canadian economy begins its recovery. The industry has been well supported by government and the lending community and this support has continued into the first part of 2021. Vaccine distribution has begun and is critical for the industry. Based on current timetables, domestic travel is expected to resume in the second half of 2021, followed by U.S. and International travel in 2022-2023. The current consensus is for most markets to reach full recovery in the next two to four years.

Seniors Housing

Despite challenges posed by a 'third wave' of the COVID-19 pandemic, seniors housing investor sentiment is improving. While community spread of the virus and its variants continued to increase in Canada through March and April, related outbreaks and case counts in retirement residences and long-term care homes have decreased materially since the rollout of vaccines. The implementation of vaccines will continue to bolster consumer confidence, which is a key ingredient for a turnaround in operating performance. From a leasing perspective, lead generation has improved significantly and is returning to pre-COVID levels for many communities. As vaccinations reach critical mass, we expect to see an inflection point in occupancy midway through this year, kicking off an ensuing recovery. Investment activity is also expected to improve on a year-over-year basis.

Q1 2021 CAP RATE SURVEY REPORT

Commercial Real Estate Cap Rates Across Canadian Markets

	VICTORIA			VANCOUVER			CALGARY			EDMONTON			WINNIPEG			KITCHENER/WATERLOO			TORONTO			OTTAWA			MONTREAL			HALIFAX		
	RANGE:	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁		
DOWNTOWN OFFICE																														
AA	4.75%	5.25%	◀▶	3.75%	4.50%	◀▶	5.50%	6.25%	▲	5.75%	6.75%	◀▶	5.25%	5.75%	◀▶	N/A	N/A	N/A	4.00%	4.50%	◀▶	4.25%	5.25%	◀▶	4.25%	5.25%	◀▶	n/a	n/a	N/A
A	5.00%	5.50%	◀▶	4.00%	4.75%	◀▶	6.75%	8.00%	▲	6.75%	8.00%	▲	5.50%	6.25%	◀▶	5.75%	6.25%	◀▶	4.25%	4.75%	▲	5.00%	6.00%	◀▶	5.25%	6.25%	◀▶	6.25%	6.75%	◀▶
B	5.25%	5.75%	◀▶	4.25%	4.75%	◀▶	8.00%	9.00%	▲	8.00%	9.00%	▲	6.50%	7.00%	▲	6.25%	6.75%	◀▶	4.50%	5.25%	▲	6.25%	7.25%	◀▶	5.75%	6.75%	◀▶	7.00%	7.75%	◀▶
SUBURBAN OFFICE																														
A	5.25%	5.75%	◀▶	4.50%	5.25%	◀▶	7.25%	8.25%	▲	7.00%	8.00%	▲	6.25%	7.00%	◀▶	5.75%	6.75%	◀▶	6.00%	6.75%	▲	5.00%	6.50%	◀▶	6.00%	7.00%	◀▶	6.50%	7.50%	◀▶
B	5.50%	6.00%	◀▶	5.25%	5.75%	◀▶	7.75%	8.75%	▲	7.50%	8.50%	▲	6.75%	7.75%	◀▶	6.75%	7.50%	◀▶	7.00%	8.00%	▲	6.00%	7.50%	◀▶	6.50%	7.50%	◀▶	7.50%	8.50%	◀▶
INDUSTRIAL																														
A	5.50%	6.00%	◀▶	3.50%	4.25%	◀▶	5.25%	5.50%	◀▶	5.75%	6.50%	▲	5.50%	6.00%	◀▶	5.00%	6.00%	◀▶	4.00%	5.00%	▼	4.75%	5.25%	◀▶	4.25%	5.25%	▼	6.25%	7.00%	◀▶
B	5.75%	6.25%	◀▶	4.25%	4.75%	◀▶	6.00%	6.75%	◀▶	6.50%	7.50%	▲	6.00%	6.50%	◀▶	5.75%	6.50%	◀▶	5.00%	6.00%	◀▶	5.00%	6.00%	◀▶	5.25%	6.25%	▼	7.25%	7.75%	◀▶
MULTI-RESIDENTIAL																														
High Rise	3.25%	3.75%	◀▶	2.50%	3.00%	◀▶	4.50%	5.00%	◀▶	3.75%	4.75%	◀▶	4.50%	5.50%	◀▶	3.50%	5.00%	◀▶	3.60%	4.00%	◀▶	3.75%	4.75%	◀▶	3.50%	4.75%	◀▶	4.50%	5.00%	◀▶
Low Rise	3.50%	4.00%	◀▶	2.75%	3.50%	◀▶	5.00%	5.50%	◀▶	5.00%	6.00%	◀▶	5.00%	5.75%	◀▶	4.50%	5.50%	◀▶	3.75%	4.50%	◀▶	4.50%	5.00%	◀▶	4.75%	5.75%	◀▶	5.50%	6.25%	◀▶
SENIORS HOUSING																														
Seniors Housing "A"	5.50%	6.50%	◀▶	5.25%	6.25%	◀▶	6.00%	6.75%	◀▶	6.00%	7.00%	◀▶	6.25%	7.00%	◀▶	6.00%	6.75%	◀▶	5.75%	6.50%	◀▶	5.75%	6.75%	◀▶	6.00%	6.75%	◀▶	6.25%	7.25%	◀▶
Seniors Housing "B"	6.75%	7.75%	◀▶	6.50%	7.50%	◀▶	7.25%	8.25%	◀▶	7.25%	8.50%	◀▶	7.50%	8.50%	◀▶	7.25%	8.25%	◀▶	7.00%	8.00%	◀▶	7.00%	8.25%	◀▶	7.25%	8.25%	◀▶	7.50%	8.50%	◀▶
Long-Term Care "A"	6.75%	7.50%	◀▶	6.50%	7.25%	◀▶	7.00%	7.75%	◀▶	7.00%	8.00%	◀▶	7.50%	8.00%	◀▶	7.00%	7.75%	◀▶	7.00%	7.50%	◀▶	7.00%	7.75%	◀▶	7.50%	8.00%	◀▶	7.50%	8.25%	◀▶
HOTELS																														
Full-Service Downtown	6.25%	7.50%	◀▶	5.00%	6.50%	◀▶	7.00%	8.50%	◀▶	7.50%	9.00%	◀▶	8.00%	9.50%	◀▶	7.50%	9.50%	◀▶	5.00%	6.50%	◀▶	7.00%	8.50%	◀▶	7.00%	8.50%	◀▶	7.50%	9.00%	◀▶
Select Service	7.25%	8.50%	◀▶	6.00%	8.00%	◀▶	7.50%	9.50%	◀▶	8.00%	9.50%	◀▶	8.00%	9.50%	◀▶	7.50%	9.50%	◀▶	6.25%	7.50%	◀▶	7.50%	9.00%	◀▶	7.50%	9.00%	◀▶	8.00%	10.00%	◀▶
Limited-Service Suburban	7.50%	9.00%	◀▶	6.50%	8.50%	◀▶	8.00%	10.00%	◀▶	9.00%	10.50%	◀▶	8.50%	10.00%	◀▶	8.00%	10.00%	◀▶	6.75%	8.00%	◀▶	8.00%	10.00%	◀▶	8.00%	10.00%	◀▶	9.00%	10.50%	◀▶
RETAIL																														
Street Front - Top Performer	4.75%	5.25%	▲	3.50%	4.25%	▲	6.00%	6.75%	▲	6.00%	6.50%	▲	N/A	N/A	N/A	5.75%	6.75%	▲	4.50%	5.50%	▲	4.50%	5.50%	▲	4.75%	5.75%	▲	N/A	N/A	N/A
Regional Mall - Top Performer	5.00%	6.00%	▲	4.00%	5.00%	▲	5.75%	6.75%	▲	5.25%	6.25%	▲	5.75%	6.50%	▲	6.00%	6.50%	▲	3.75%	4.75%	▲	5.25%	5.75%	▲	4.75%	5.75%	▲	5.25%	6.25%	▲
Power Centre	5.25%	5.75%	▲	5.25%	5.75%	▲	6.00%	6.75%	▲	5.50%	6.25%	▲	5.75%	6.50%	▲	6.00%	6.50%	▲	5.25%	6.25%	▲	5.50%	6.00%	▲	5.25%	6.25%	▲	5.75%	6.75%	▲
Community Commercial Centre	5.50%	6.00%	▲	4.75%	5.50%	▲	6.25%	7.25%	▲	6.50%	7.25%	▲	5.75%	6.50%	▲	6.50%	7.00%	▲	5.25%	6.25%	▲	5.75%	6.75%	▲	6.25%	7.25%	▲	7.00%	8.00%	▲
Strip Plaza Anchored	5.25%	5.75%	▲	4.50%	5.25%	▲	5.50%	6.25%	◀▶	5.50%	6.25%	▲	5.75%	6.50%	▲	5.00%	6.00%	▲	5.00%	5.50%	▲	5.50%	6.00%	▼	5.50%	6.50%	◀▶	6.50%	7.50%	▲
Strip Plaza Non-Anchored	5.50%	6.00%	▲	4.75%	5.50%	▲	6.25%	7.25%	▲	6.25%	7.25%	▲	6.50%	7.25%	▲	5.50%	6.75%	▲	6.00%	6.50%	▲	6.25%	7.75%	▲	6.75%	7.75%	▲	7.50%	8.50%	▲

LEGEND

- 👁 Outlook *Indicates outlook change &/or cap rate*
- ▲ Up *± bps change from previous quarter*
- ▼ Down
- ◀▶ Flat
- Green font indicates rising cap rate*
- Red font indicates falling cap rate*

CAPITALIZATION RATE

Cushman & Wakefield provides quarterly estimates of capitalization rates for the asset classes contained in this report based on our market expertise. The cap rate ranges are based on transaction data where possible, as well as demand and supply dynamics in the region. These estimates are meant to encompass the majority of assets within each class and may not represent outlier transactions or deals relating to assets with specific attributes that would significantly differentiate them. Particularly during periods of uncertainty, such as since the initial impact of COVID-19, transactions have been limited and best estimates of cap rates have been provided factoring in the expertise of local market participants.

Q1 2021 INVESTMENT GLOSSARY

DOWNTOWN OFFICE

CLASS AA

A best-in-class office product, with more elaborate common areas, modern construction and building efficiencies, that commands the highest rents and tends to attract stronger covenant tenants, such as banks, government, insurance companies, etc. These buildings tend to be situated close to the core within their respective markets and have excellent access to major public transit hubs. Buildings are typically larger than 750,000 SF, with 5 to 10-year tenancies and some 15-year leases for inbound tenants. Occupancy levels assumed to stabilize at close to 95% of comparable market net rates.

CLASS A

A strong-performing asset, typically between 400,000 and 700,000 SF, which is well located, and may have smaller floor plate sizes, solid amenities and less elaborate common areas. The majority of the tenants have 5 to 10-year lease commitments. Occupancy levels assumed to stabilize at close to 95% of comparable market net rates.

CLASS B

Older office product, typically in the range of 100,000 to 250,000 SF. Buildings tend to be occupied with a diversified tenant mix but lack a large anchor tenant. Shorter lease commitments occur in this asset class with the average term ranging between 5 and 10 years. Average floor plate size can be significantly smaller. Generally, not connected to the subway.

SUBURBAN OFFICE / INDUSTRIAL

CLASS A

Newer high-quality suburban product, typically between 100,000 and 300,000 SF. Attracts good covenant tenants for 5 to 10-year lease terms.

CLASS B

Older suburban product that attracts a wider range of tenants and covenants for lease terms ranging between 3 and 10 years.

APARTMENT

HIGH RISE

An apartment building greater than 4 storeys in height or having more than 80 units.

LOW RISE

Any apartment complex having fewer than 80 units.

SENIORS HOUSING

A retirement residence that provides independent, assisted living and/or memory care services and accommodation. As part of the monthly fee, access to meals and other services, such as housekeeping, transportation, and social and recreational activities, may be provided to residents. Assisted living and memory care service levels include assistance with activities of daily living and personal care support. Typically, 100% of the cost of accommodation and related service is paid for privately by the resident.

LONG-TERM CARE

Also referred to as nursing homes, long-term care homes provide accommodation and care services

for adults requiring access to 24-hour nursing and personal care. This includes help with most or all daily activities. Typically, long-term care homes in Canada receive reimbursement via government subsidies for the care services provided to residents. Residents are most often responsible for a co-payment to offset the cost of 'room and board'.

HOTEL

FULL-SERVICE

A hotel with extensive dining and meeting facilities. Quality ranges from upscale to luxury. Examples include Hilton, Westin, Hyatt, etc.

SELECT-SERVICE

A hotel that offers the fundamentals of limited-service properties blended with a selection of features found in full-service properties. Typically, this involves a limited presence of food, beverage and meeting space.

LIMITED-SERVICE

A room-focused hotel with minimal facilities. Quality ranges from economy to mid-scale. Examples include Comfort Inn and Super 8.

RETAIL

STREET FRONT – TOP PERFORMER

Typically considered the street or section thereof where the greatest dollar value psf is generated from streetfront retail stores within each market.

REGIONAL MALL – TOP PERFORMER

Top-performing fully enclosed mall. These buildings tend to be greater than 800,000 SF and have a

wide product offering, featuring destination retailers and 2 to 3 anchor tenants. Often located near large transit hubs and serve a trade area between 10 and 30 kilometres.

POWER CENTRE

Large format, category dominant retailers in an open-air configuration that may include "club" or discount department stores. Total GLA is typically between 100,000 and 1,000,000 SF.

COMMUNITY COMMERCIAL CENTRE

An enclosed centre anchored by a smaller department store, servicing a local community. Tenants may include general merchandise and convenience offerings, including a grocery store. Total GLA is typically between 100,000 and 400,000 SF.

STRIP PLAZA – ANCHORED

An open-air configuration of attached retail stores that may include retail PAD sites. They are often anchored by a food or drug store tenant. Tenants are generally servicing residents in the neighbourhood. These would include dry cleaners, take-out food stores, convenience stores, etc.

STRIP PLAZA – NON-ANCHORED

An open-air configuration of attached retail stores, not anchored by a grocer or drug store, that may include retail PAD sites. Tenants are generally servicing local neighbourhood residents.

AT THE CENTRE OF WHAT'S NEXT



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