# PERSPECTIVE

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

Q1 2022

CUSHMAN & WAKEFIELD

## Q1 2022 CAP RATES AND 2022 PERSPECTIVE

### Industrial & Multi-Family

The industrial market picked right up where 2021 left off as the demand for industrial space continues to be extremely strong, with historically low vacancy levels across Canada (first quarter national vacancy declined to 1.3%, a new record low). Absorption was slightly lower than in Q4 2021 but asking and achieved rental rates continue to rise. While development is taking place, there continues to be a scarcity of development sites, with land pricing in several cities hitting record levels. Investor demand has also resulted in downward pressure on investment metrics as good quality offerings are seeing multiple bidders and strong pricing. 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. However, participants are watching how the recent increase in interest / lending rates will impact demand and pricing for both industrial and multi-family properties.

### Office

Despite an increase in the overall vacancy rate, first quarter leasing activity reached close to 6.6 million square feet, the highest quarterly total since the fourth quarter of 2018. While vacancy rose by 20 basis points from the previous quarter, this quarter's increase was the smallest quarter-over-quarter increase since the onset of the pandemic. With Omicron in the rearview window, most provincial governments have eased public health restrictions including those within workplace environments. As many companies continue to encourage employees to come back to the office through a hybrid work model, downtown cores have started to see some improvement with pedestrian traffic. Notably, downtown retail is beginning to see the light at the end of the tunnel. Regarding investor demand, investors continue to focus on income security, particularly those situated in a downtown market given the elevated vacancy levels in place across the country.

### Retail

Retail was one of the real estate sectors that suffered the most through the COVID-19 pandemic. With the many public health restrictions now eased, we have seen increased pedestrian traffic in the malls. Normalcy is starting to return to our daily lives. Unemployment levels have hit historical lows while inflation rates are hitting generational highs. The Bank of Canada has responded with increases in interest rates, with more rate increase to come. Necessity based retail continues to perform well and continue to be favored by investors, while enclosed malls are expected to see improvement with COVID-19 restrictions being lifted. Although urban enclosed malls will likely take longer to see improvements due to the new hybrid work model and the slower return to work, it is anticipated that these centres will continue to perform well in the long run.

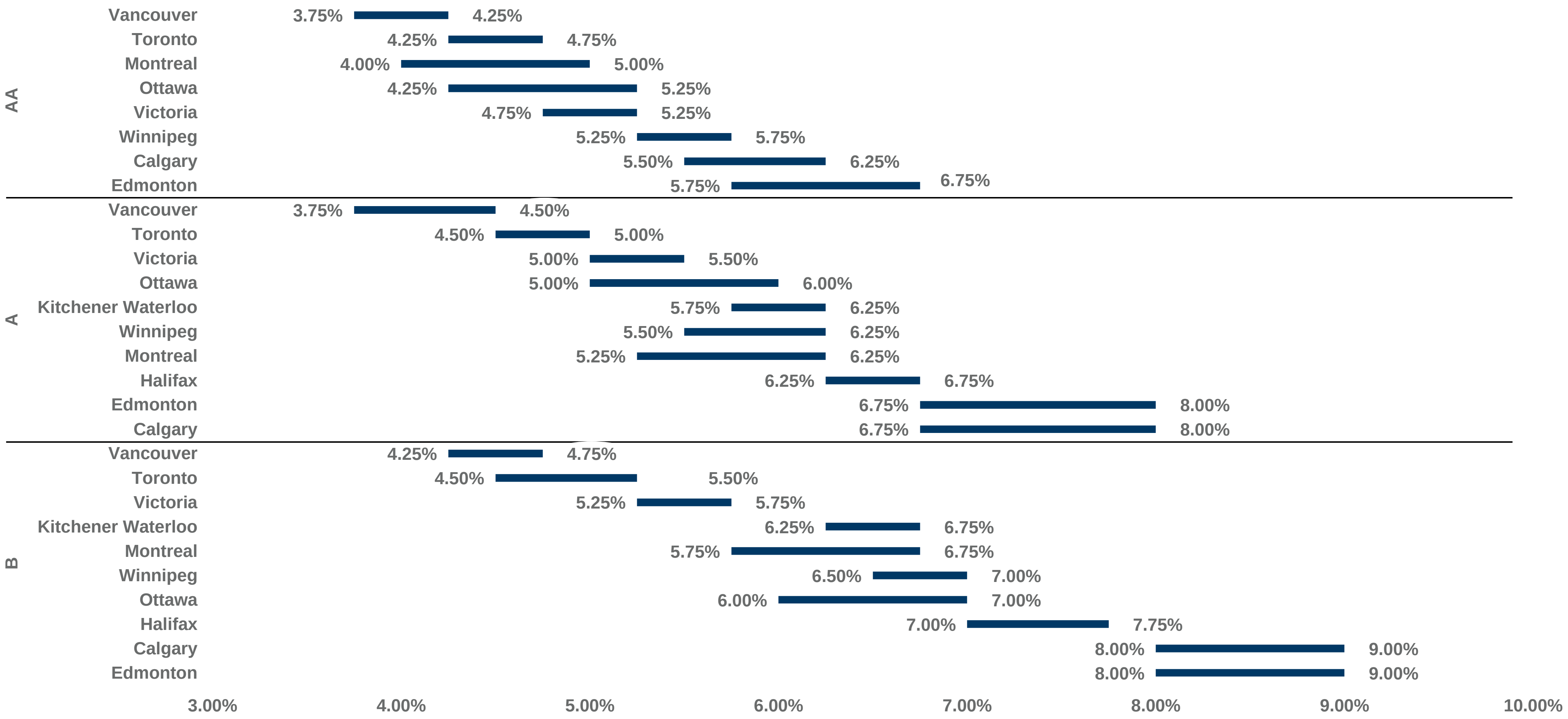
### Hotel

Despite the arrival of Omicron in late 2021, results for hotels in Q1 2022 continued to grow over 2021 levels and all indicators continue to point to a strong recovery in 2022. City centre markets which have lagged the recovery should see stronger growth in 2022 as group and conference demand recovers and business travel resumes. Hotels continue to attract strong investor interest and transactions for well-located good quality assets are occurring with no discounting from pre-COVID-19 levels. While there is strong optimism in the sector, recent rises in interest rates and events on the world stage could impact investor expectations later in the year.

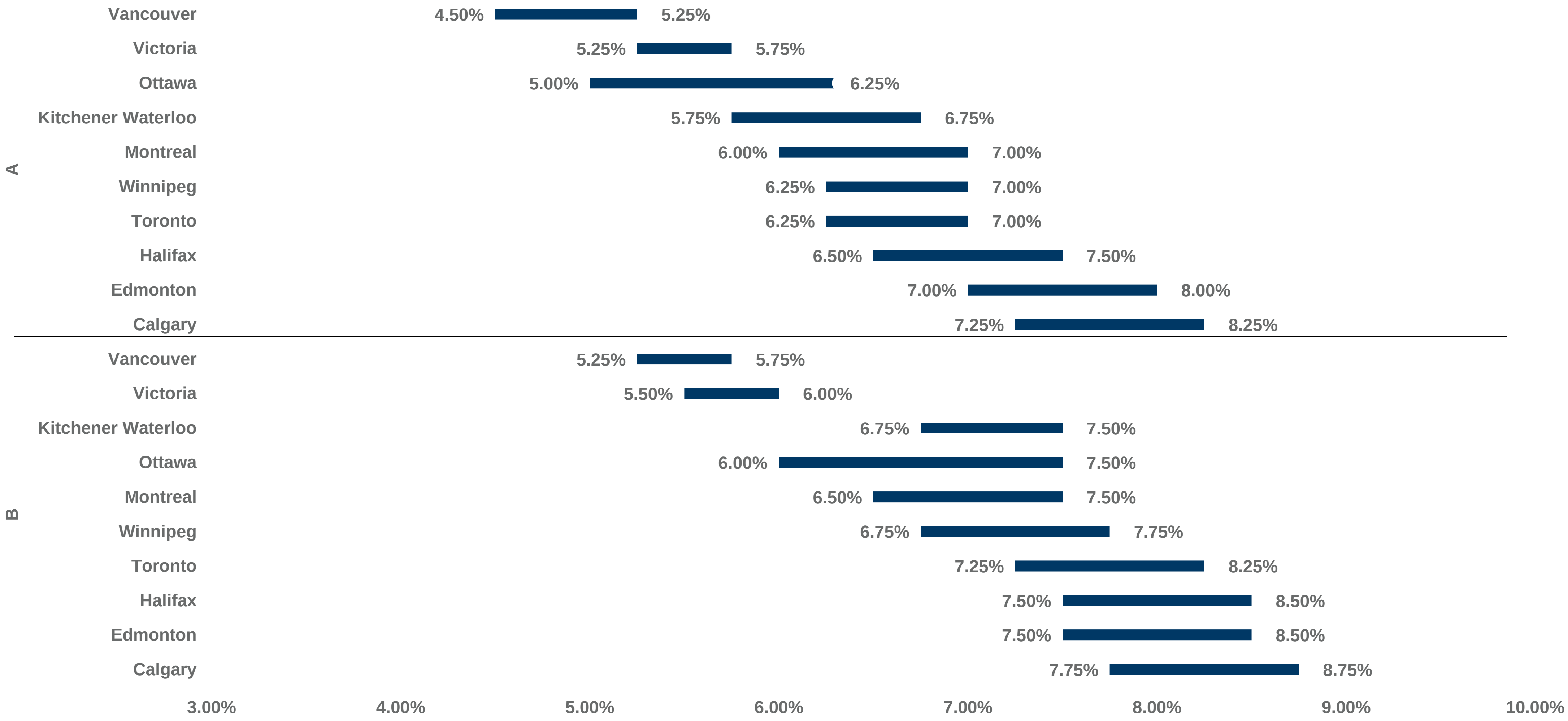
### Seniors Housing

The direct property investment market continues to shrug off mixed operating results, with a number of benchmark setting transactions announced during the first quarter. Perhaps as a result of the pandemic, investors' portfolio strategy is becoming more refined and focused. Whereas the historical playbook for most national groups was to invest in all product type areas of the 'continuum of care', from independent living residences to long-term care homes, many investors are now adjusting portfolio asset mix to re-focus on one or two areas of competitive advantage. As we continue to monitor the pace of rising inflation and interest rates, it is noteworthy that seniors housing as an asset class has historically performed well during transitional periods. This due to the 'needs driven' demand profile of the sector, the shorter-term lease duration and the prospect of significant demographic driven rent growth in the coming years. More concerning than rising interest rates would be any major disruption in the housing market, as prospective tenants often look to sell their primarily residence as a prerequisite for making the move to seniors housing. For now, the outlook remains positive for this growing asset class.

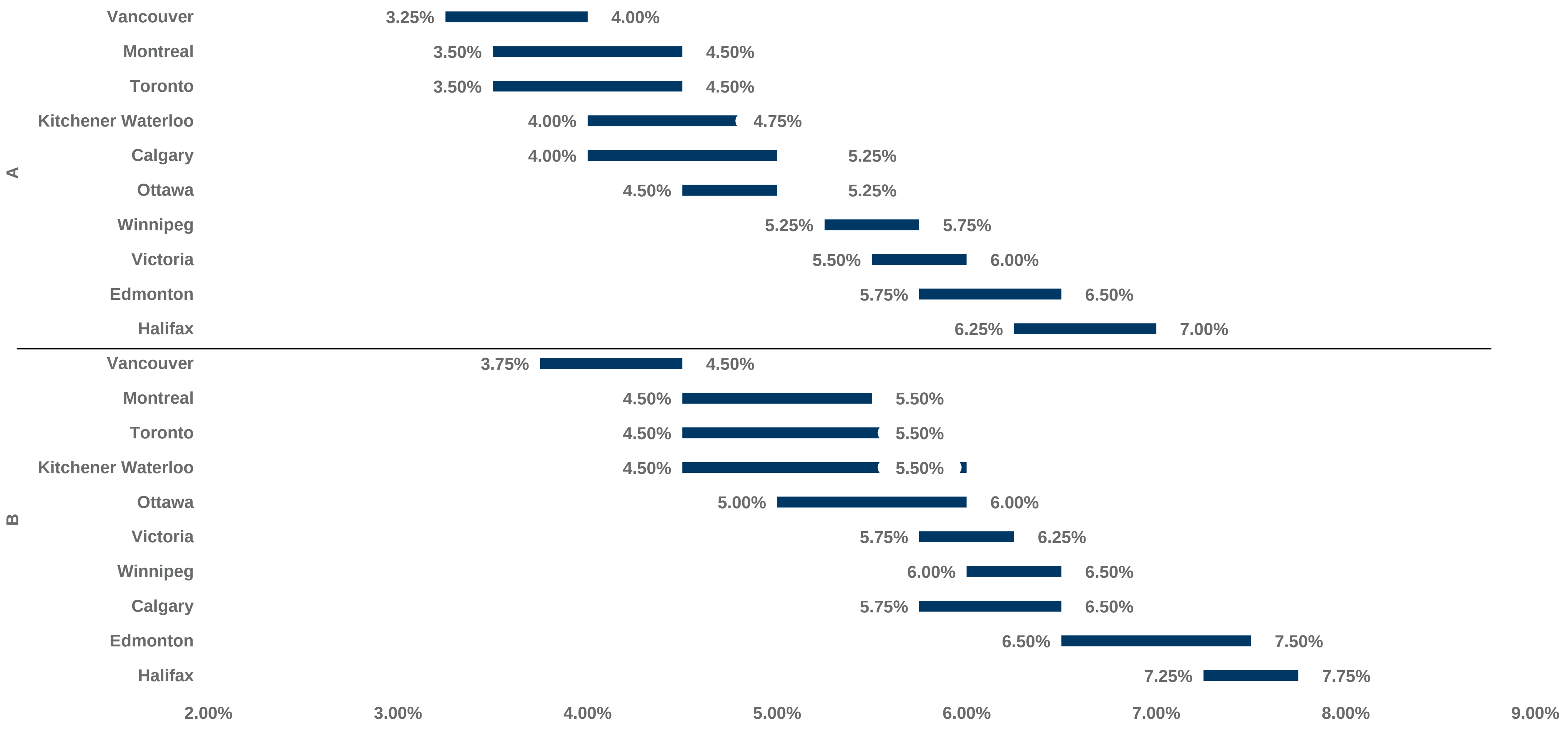
# DOWNTOWN OFFICE CAP RATES



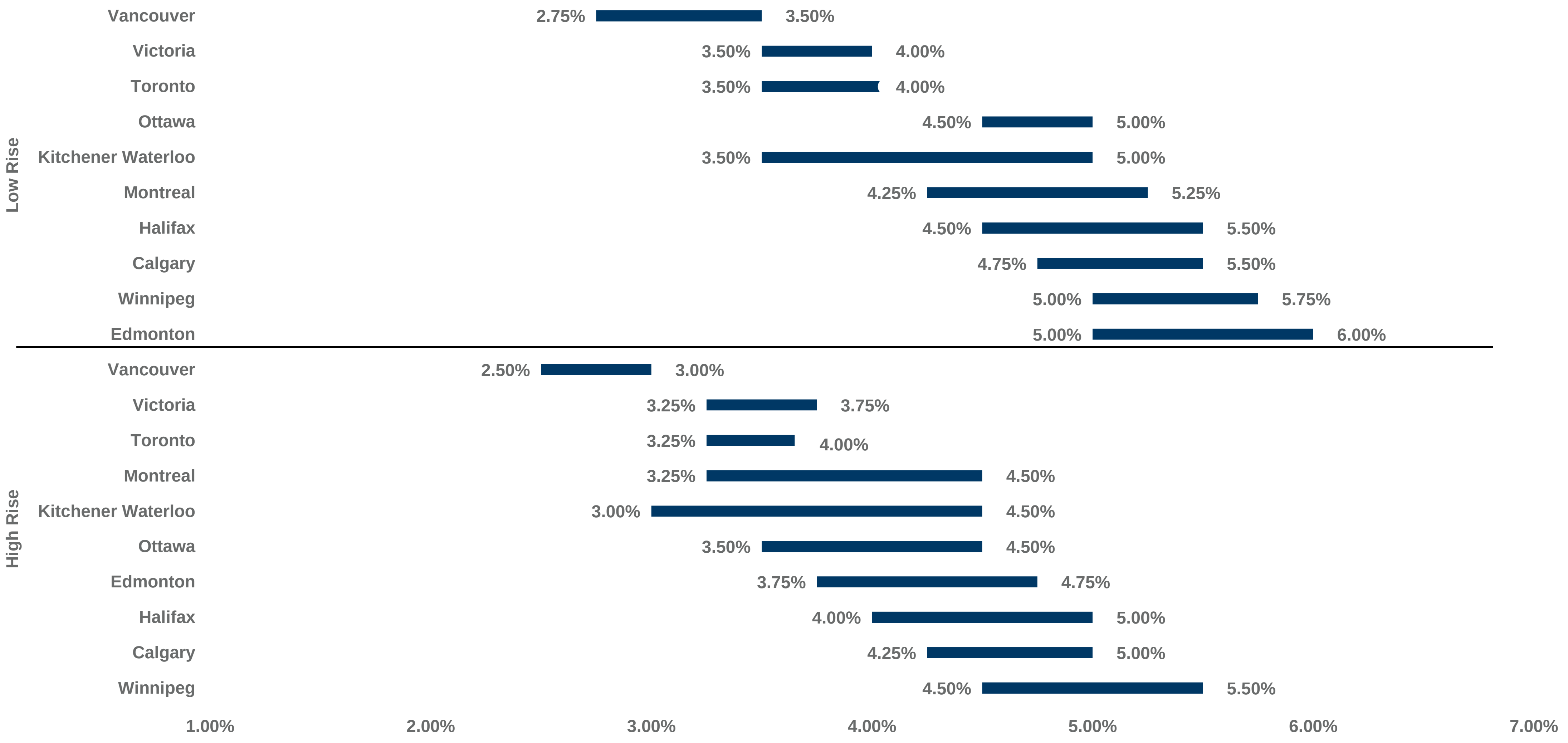
## SUBURBAN OFFICE CAP RATES



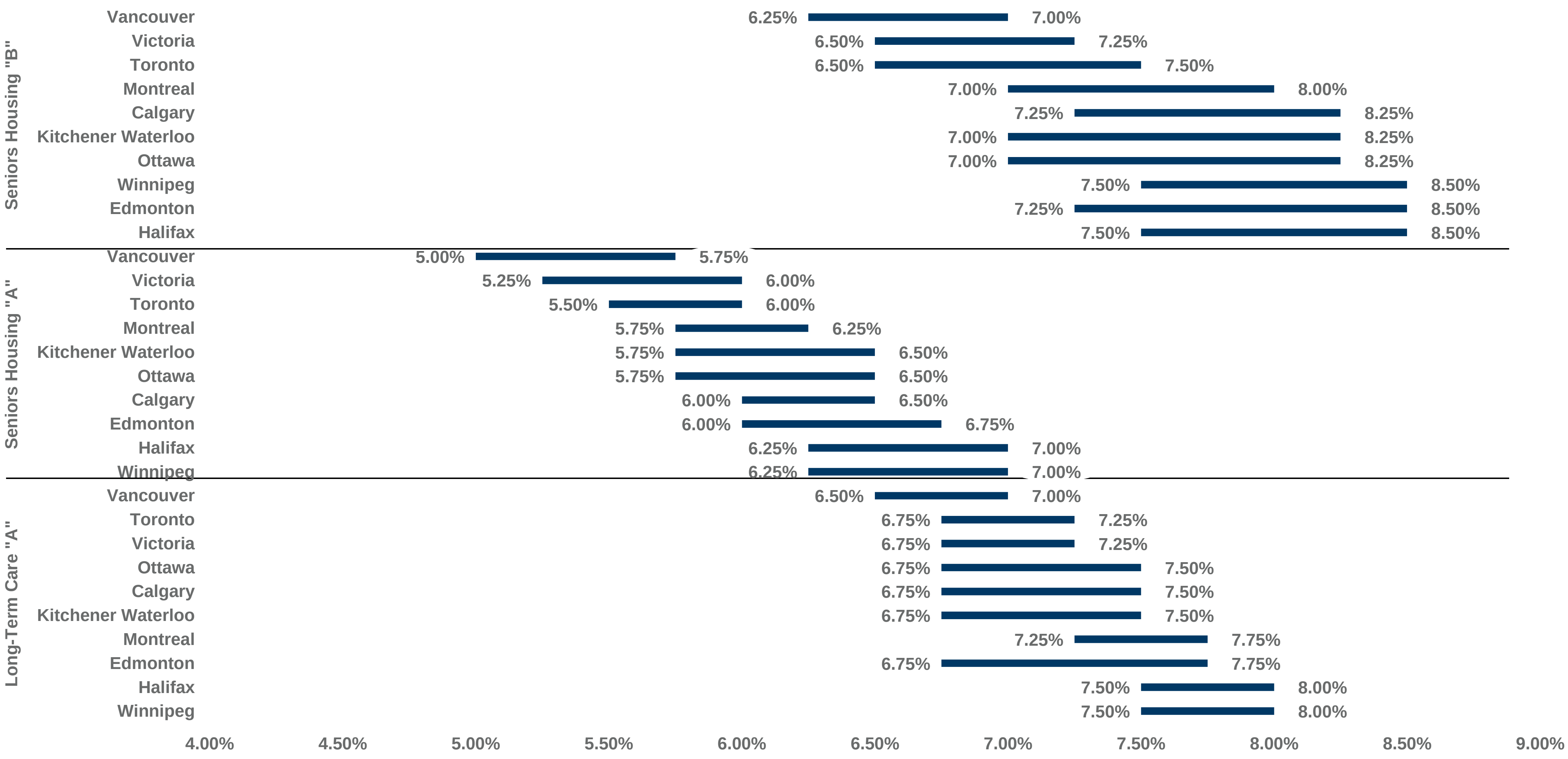
# INDUSTRIAL CAP RATES



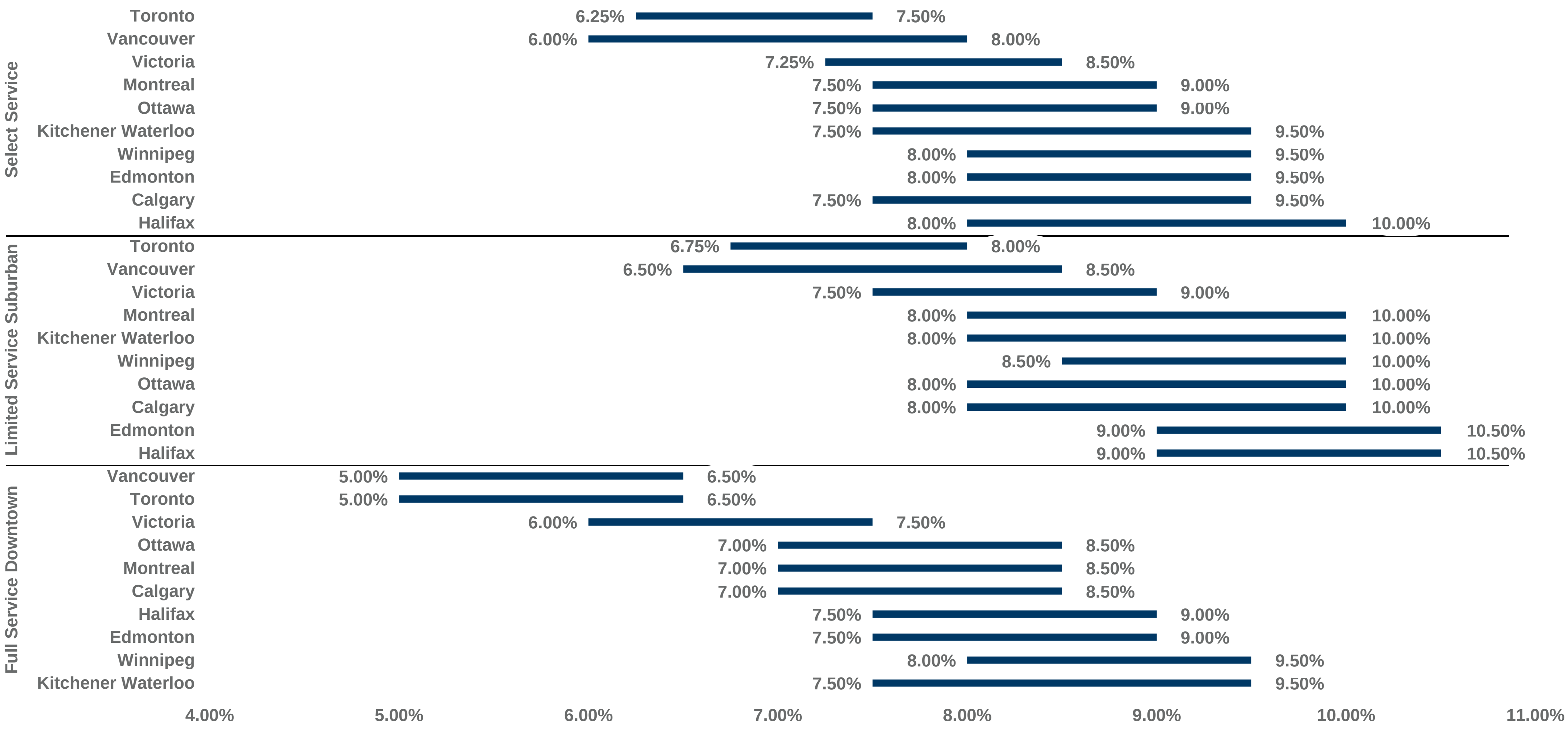
## MULTI-RESIDENTIAL CAP RATES



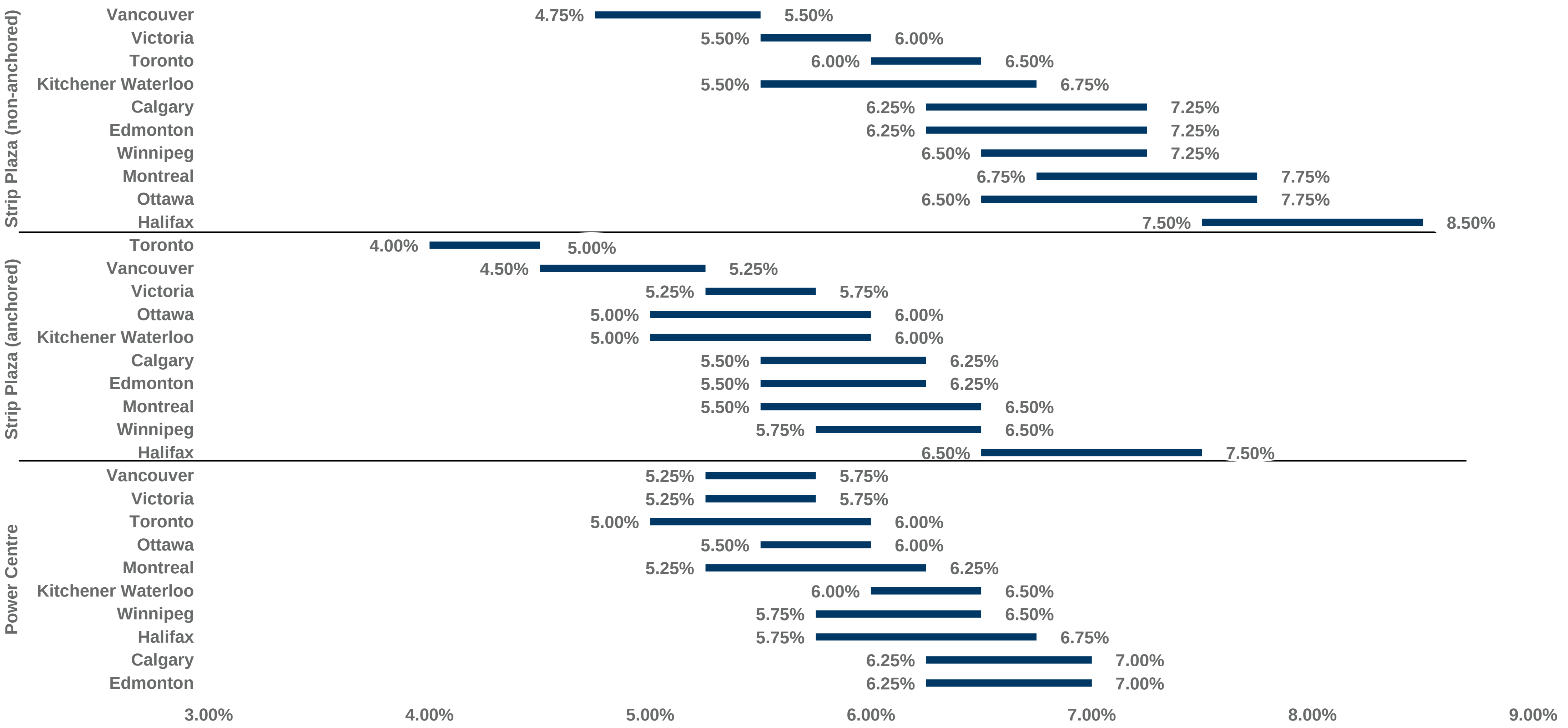
## SENIORS HOUSING CAP RATES



## HOTEL CAP RATES



## RETAIL CAP RATES



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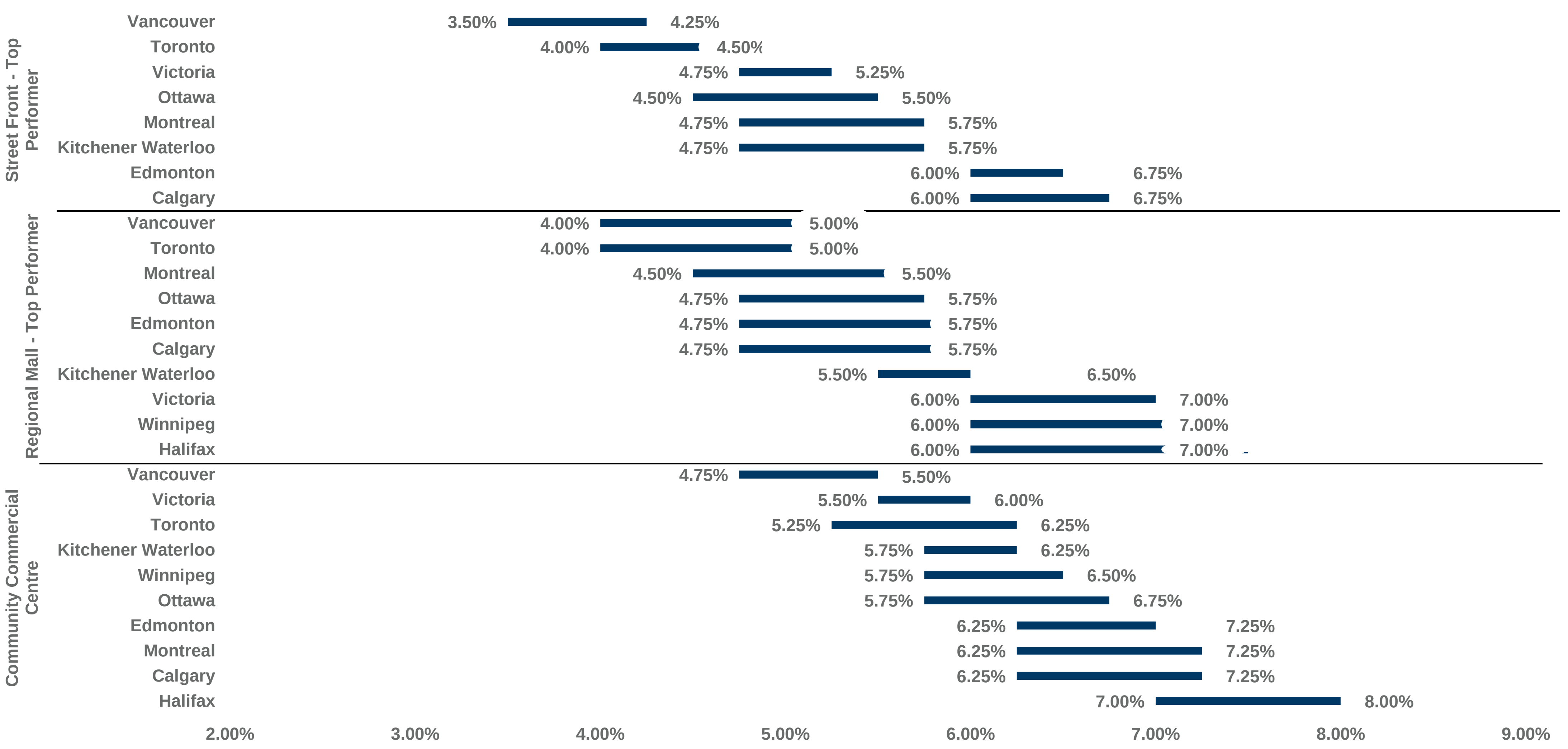

# Q1 2022 CAP RATE SURVEY REPORT

*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 | 👁 | LOW | HIGH | 👁 |
| **DOWNTOWN OFFICE** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AA | 4.75% | 5.25% | ◀▶ | 3.75% | 4.25% | ◀▶ | 5.50% | 6.25% | ▲ | 5.75% | 6.75% | ◀▶ | 5.25% | 5.75% | ◀▶ | N/A | N/A | N/A | 4.25% | 4.75% | ▲ | 4.25% | 5.25% | ◀▶ | 4.00% | 5.00% | ◀▶ | N/A | N/A | N/A |
| A | 5.00% | 5.50% | ◀▶ | 3.75% | 4.50% | ◀▶ | 6.75% | 8.00% | ▲ | 6.75% | 8.00% | ▲ | 5.50% | 6.25% | ◀▶ | 5.75% | 6.25% | ◀▶ | 4.50% | 5.00% | ▲ | 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% | 5.50% | ▲ | 6.00% | 7.00% | ◀▶ | 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% | ◀▶ | 6.25% | 7.00% | ▲ | 5.00% | 6.25% | ▼ | 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% | ◀▶ | 7.25% | 8.25% | ▲ | 6.00% | 7.50% | ◀▶ | 6.50% | 7.50% | ◀▶ | 7.50% | 8.50% | ◀▶ |
| **INDUSTRIAL** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | 5.50% | 6.00% | ◀▶ | 3.25% | 4.00% | ◀▶ | 4.00% | 5.25% | ▼ | 5.75% | 6.50% | ▼ | 5.25% | 5.75% | ▼ | 4.00% | 4.75% | ▼ | 3.50% | 4.50% | ▼ | 4.50% | 5.25% | ▼ | 3.50% | 4.50% | ▼ | 6.25% | 7.00% | ◀▶ |
| B | 5.75% | 6.25% | ◀▶ | 3.75% | 4.50% | ◀▶ | 5.75% | 6.50% | ▼ | 6.50% | 7.50% | ◀▶ | 6.00% | 6.50% | ◀▶ | 4.50% | 5.00% | ▼ | 4.50% | 5.50% | ▼ | 5.00% | 6.00% | ◀▶ | 4.50% | 5.50% | ▼ | 7.25% | 7.75% | ◀▶ |
| **APARTMENT** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| High Rise | 3.25% | 3.75% | ◀▶ | 2.50% | 3.00% | ◀▶ | 4.25% | 5.00% | ◀▶ | 3.75% | 4.75% | ◀▶ | 4.50% | 5.50% | ◀▶ | 3.00% | 4.50% | ◀▶ | 3.25% | 4.00% | ◀▶ | 3.50% | 4.50% | ◀▶ | 3.25% | 4.50% | ◀▶ | 4.00% | 5.00% | ◀▶ |
| Low Rise | 3.50% | 4.00% | ◀▶ | 2.75% | 3.50% | ◀▶ | 4.75% | 5.50% | ◀▶ | 5.00% | 6.00% | ◀▶ | 5.00% | 5.75% | ◀▶ | 3.50% | 5.00% | ◀▶ | 3.50% | 4.00% | ◀▶ | 4.50% | 5.00% | ◀▶ | 4.25% | 5.25% | ◀▶ | 4.50% | 5.50% | ◀▶ |
| **SENIORS HOUSING & HEALTHCARE** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Seniors Housing “A” | 5.25% | 6.00% | ◀▶ | 5.00% | 5.75% | ◀▶ | 6.00% | 6.50% | ◀▶ | 6.00% | 6.75% | ◀▶ | 6.25% | 7.00% | ◀▶ | 5.75% | 6.50% | ◀▶ | 5.50% | 6.00% | ◀▶ | 5.75% | 6.50% | ◀▶ | 5.75% | 6.25% | ◀▶ | 6.25% | 7.00% | ◀▶ |
| Seniors Housing “B” | 6.50% | 7.25% | ◀▶ | 6.25% | 7.00% | ◀▶ | 7.25% | 8.25% | ◀▶ | 7.25% | 8.50% | ◀▶ | 7.50% | 8.50% | ◀▶ | 7.00% | 8.25% | ◀▶ | 6.50% | 7.50% | ◀▶ | 7.00% | 8.25% | ◀▶ | 7.00% | 8.00% | ◀▶ | 7.50% | 8.50% | ◀▶ |
| Long-Term Care “A” | 6.75% | 7.25% | ◀▶ | 6.50% | 7.00% | ◀▶ | 6.75% | 7.50% | ◀▶ | 6.75% | 7.75% | ◀▶ | 7.50% | 8.00% | ◀▶ | 6.75% | 7.50% | ◀▶ | 6.75% | 7.25% | ◀▶ | 6.75% | 7.50% | ◀▶ | 7.25% | 7.75% | ◀▶ | 7.50% | 8.00% | ◀▶ |
| **HOTEL** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Full-Service Downtown | 6.00% | 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% | 6.75% | ◀▶ | N/A | N/A | N/A | 4.75% | 5.75% | ◀▶ | 4.00% | 4.50% | ◀▶ | 4.50% | 5.50% | ◀▶ | 4.75% | 5.75% | ▲ | N/A | N/A | N/A |
| Regional Mall - Top Performer | 6.00% | 7.00% | ▲ | 4.00% | 5.00% | ▲ | 4.75% | 5.75% | ▲ | 4.75% | 5.75% | ▲ | 6.00% | 7.00% | ▲ | 5.50% | 6.50% | ▲ | 4.00% | 5.00% | ▲ | 4.75% | 5.75% | ▲ | 4.50% | 5.50% | ▲ | 6.00% | 7.00% | ▲ |
| Power Centre | 5.25% | 5.75% | ▲ | 5.25% | 5.75% | ◀▶ | 6.25% | 7.00% | ◀▶ | 6.25% | 7.00% | ◀▶ | 5.75% | 6.50% | ▲ | 6.00% | 6.50% | ◀▶ | 5.00% | 6.00% | ◀▶ | 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% | ◀▶ | 6.25% | 7.25% | ◀▶ | 5.75% | 6.50% | ▲ | 5.75% | 6.25% | ◀▶ | 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% | ◀▶ | 4.00% | 5.00% | ◀▶ | 5.00% | 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% | ▲ | 6.50% | 7.75% | ◀▶ | 6.75% | 7.75% | ▲ | 7.50% | 8.50% | ▲ |

**LEGEND**

- 👁 Outlook
- ▲ Up
- ▼ Down
- ◀▶ Flat

*The arrow direction indicates if there was an outlook change &/or a cap rate ± bps change from the previous quarter*

*Outlook represents a forecast for the next 3-6 months*

***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 2022 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 street front 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.


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