PERSPECTIVE

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

Q3 2022

CUSHMAN & WAKEFIELD

Q3 2022 CAP RATES AND 2022 PERSPECTIVE

Industrial & Multi-Family

Demand for industrial space continues to be extremely strong, with historically low vacancy levels across Canada. However, there are some signs of stabilization as the Q3 2022 national vacancy rate is relatively flat, compared to Q2 2022. In addition, absorption was also lower quarter-over-quarter. Asking and achieved rental rates continue to rise. Multi-family offers similar fundamentals, and 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, with most expecting some caution to enter the market. We also expect to see a “flight to quality” as investors look to best in class assets as their preferred investment choice. This may put some upward pressure on achieved rates for secondary assets.

Office

The overall vacancy rate for the country held steady at 15.5% for Q3 2022, however, vacancy in the Central markets increased to 16.1% as a result of over 723,000 sf of space coming back to the market. Leasing velocity has slowed compared to the previous quarter, which is not surprising given the looming recession expected to commence early 2023. On a positive note, new developments continue to outperform, achieving NERs higher than levels since prior to the onset of the pandemic. It is anticipated that leasing velocity may remain slow into 2023 as a result of the threat of a recession in early 2023 as well as a slower return to the office than expected. Investment market conditions have continued to soften this quarter, being heavily impacted by the sharp rise in interest rates throughout 2022.

Retail

While food anchored retail continues to perform well and is currently favored by investors, enclosed malls are still out of favor with investors despite seeing improvements in pedestrian traffic levels and retailer sales performance. Urban enclosed retail will take longer to see improvements due to the hybrid work model and the slower than anticipated return to work, however, it is anticipated that these centres will perform well in the long run. Underperforming retail assets will continue to struggle and could be prime candidates for redevelopment or repositioning opportunities. With interest rates expected to continue to rise over the remainder of the year and a possible recession in 2023, we anticipate upward pressure on yields moving forward.

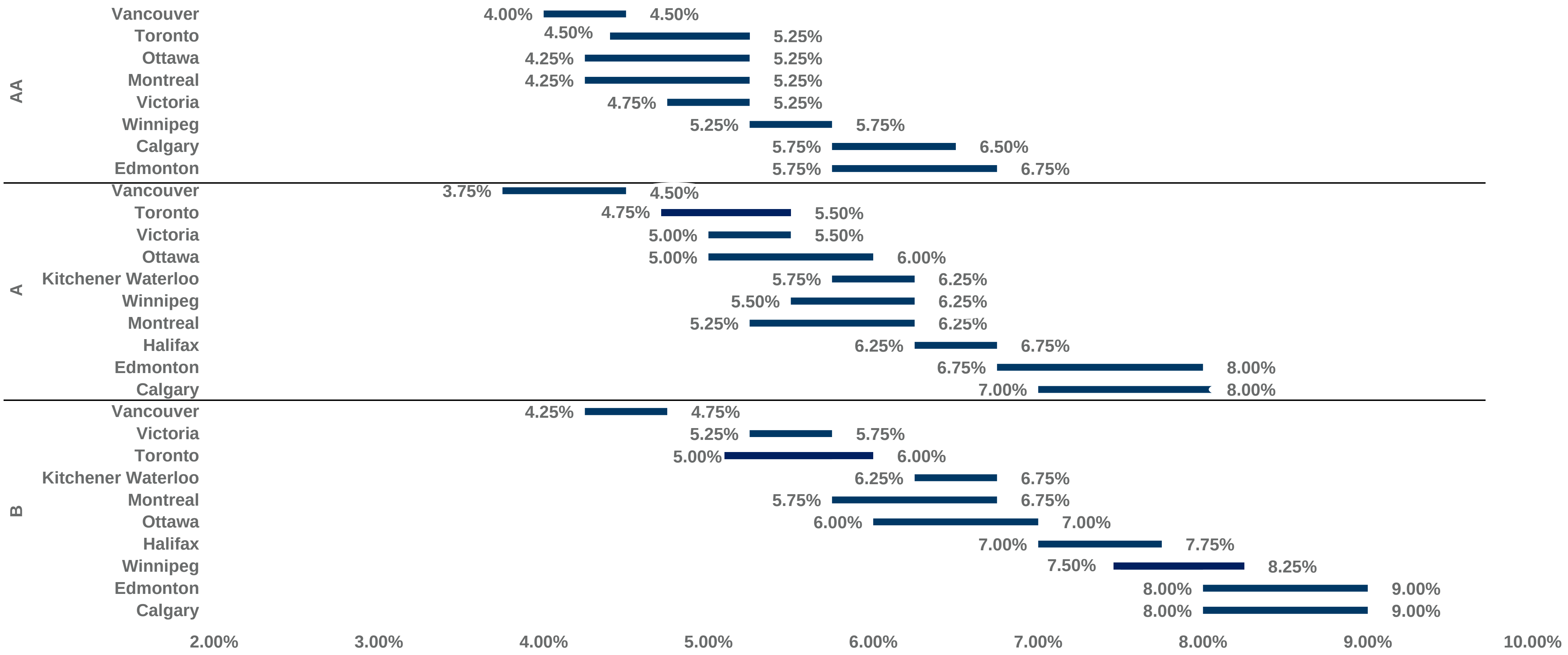
Seniors Housing

Like the rest of the market, the seniors housing sector is facing new economic realities which will result in short-term disruption. The longer-term view of operating fundamentals and the strategic importance of seniors housing as an asset class, however, remain firmly intact. There are a number of encouraging indicators to point to that the market is emerging from the COVID lulls. Occupancy continues to recover, given the slowdown in new supply and the needs driven demand that characterizes the sector. We are also seeing the start of what we expect to become a hallmark of the seniors housing asset class, which is superior rent growth relative to many other real estate asset classes. The demographic driven tailwinds that have been boasted about for so long will finally begin to provide tangible benefits on the leasing-side in the near future. This will represent a material shift in the leasing market, as vacancy fades and landlords begin to command more and more pricing power.

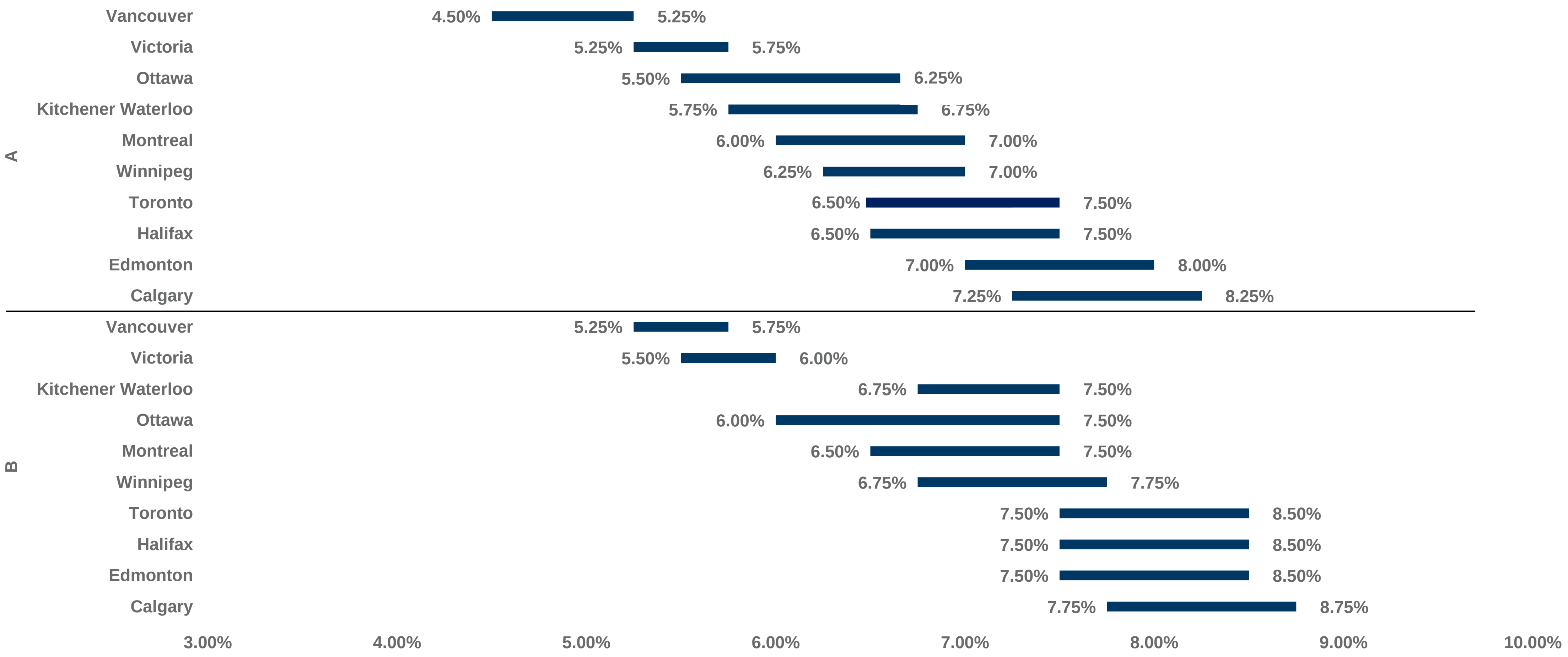
Hospitality

The hospitality sector has outperformed all expectations thus far in 2022. While some demand segments continue to lag, the leisure transient segment and group segments drove strong average rate growth this year with every type of asset achieving higher rates compared to 2019. Revenue per available room has also exceeded 2019 levels in most parts of the country. In some areas, hotel profitability will reach pre pandemic levels in 2022, far ahead of schedule. Expectations for above average income growth have kept capitalization rates in check to date despite the recent rise in interest rates. As interest rates have risen and consumer confidence and spending waned, the industry will face some challenges in the near term. Longer term, the prospects for the industry are positive as demand continues to recover and limited new supply enters the market.

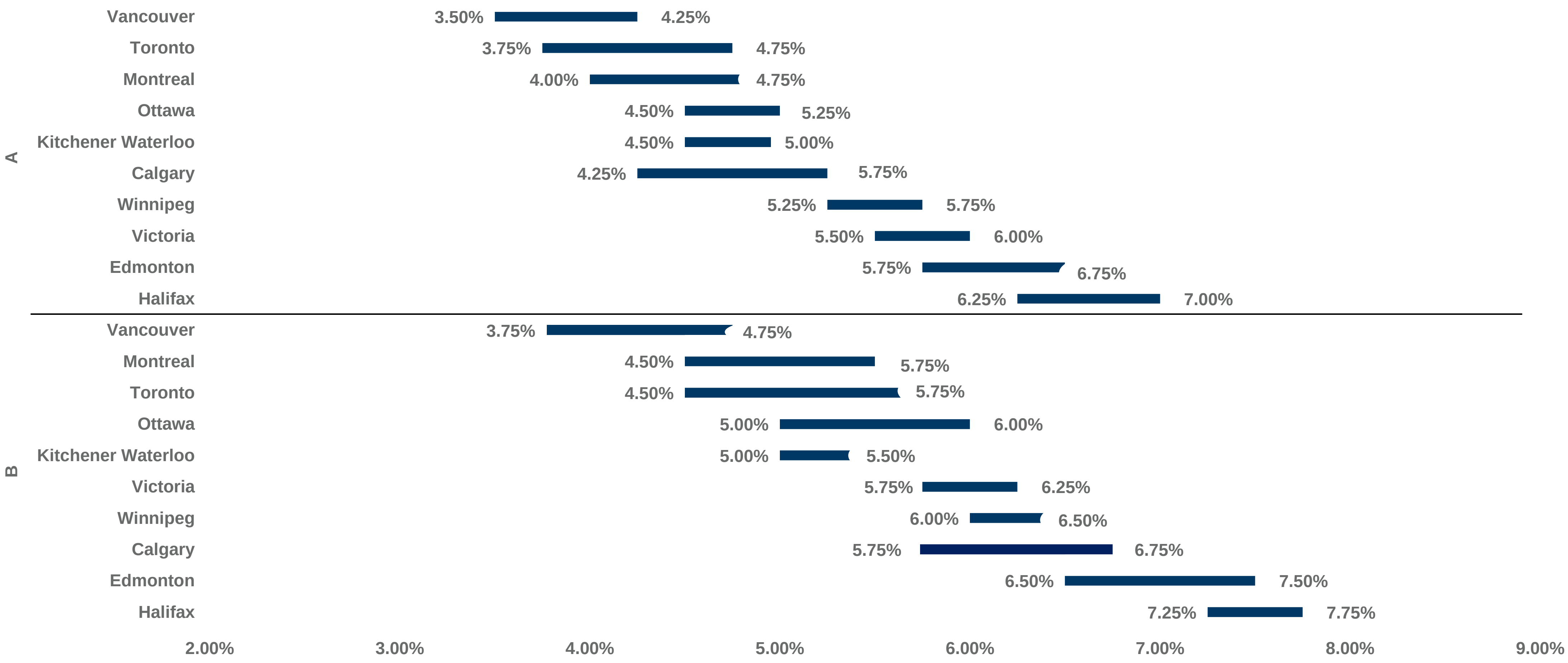
DOWNTOWN OFFICE CAP RATES



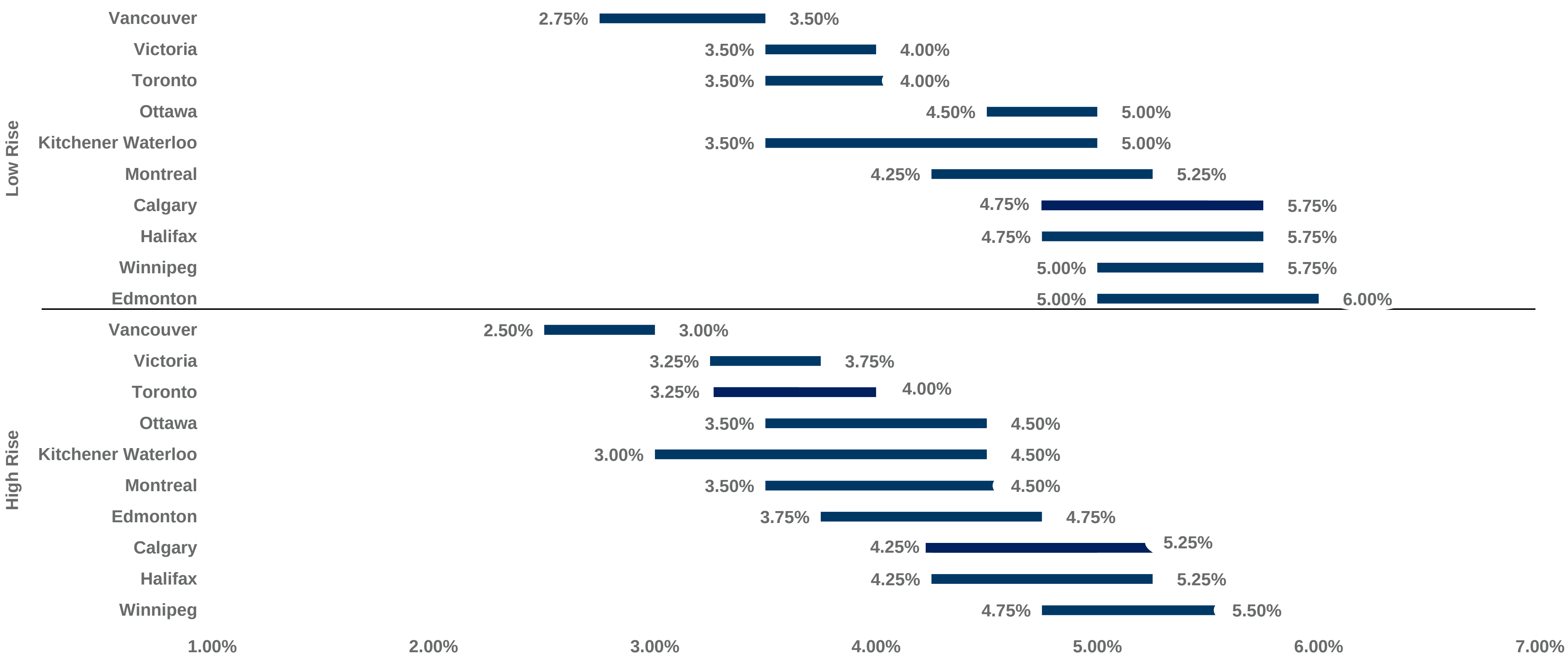
SUBURBAN OFFICE CAP RATES



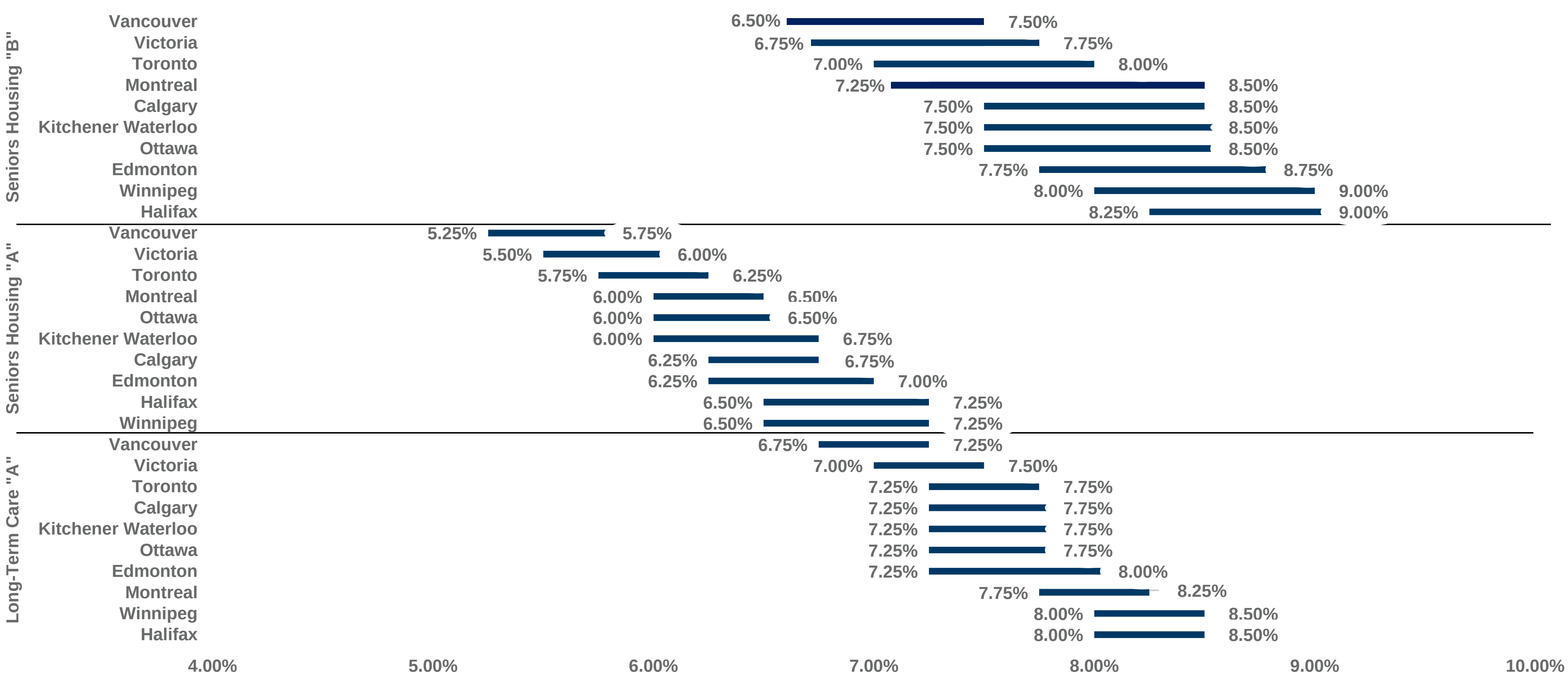
INDUSTRIAL CAP RATES



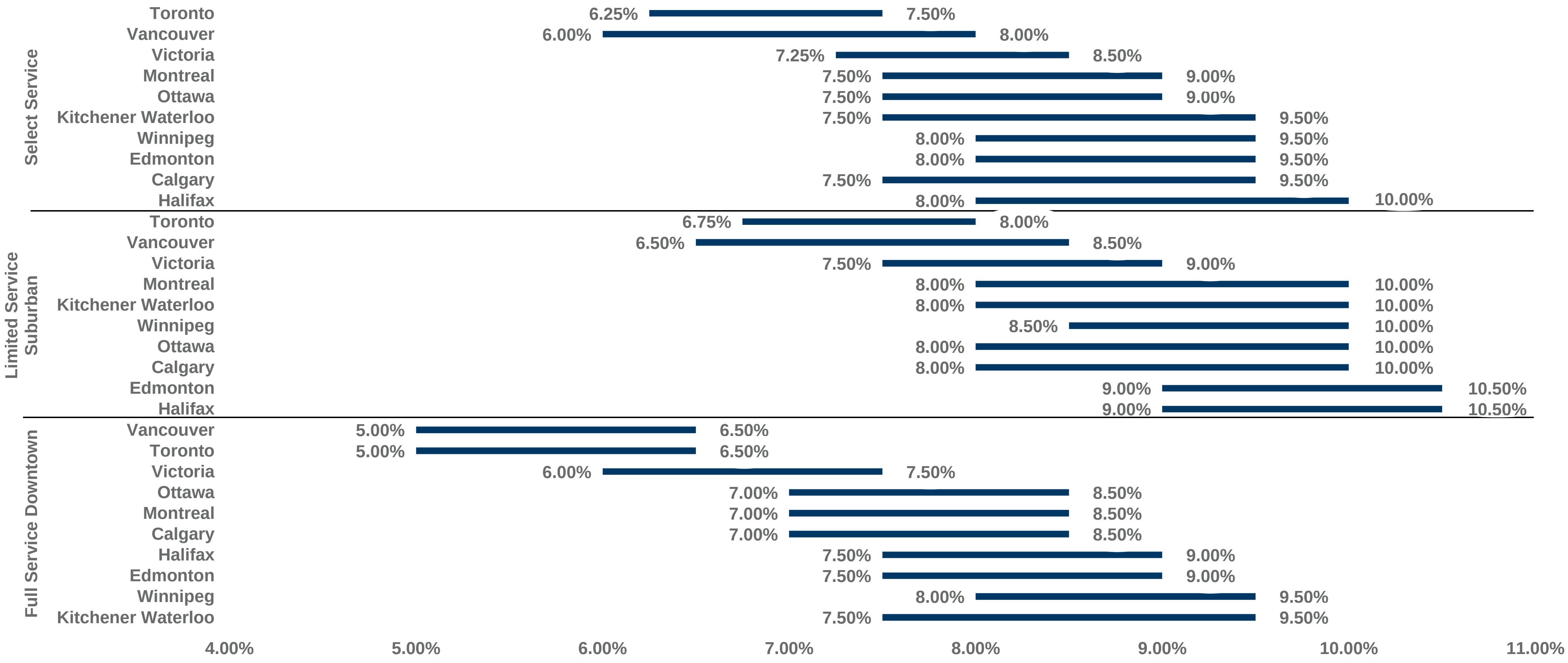
MULTI-RESIDENTIAL CAP RATES



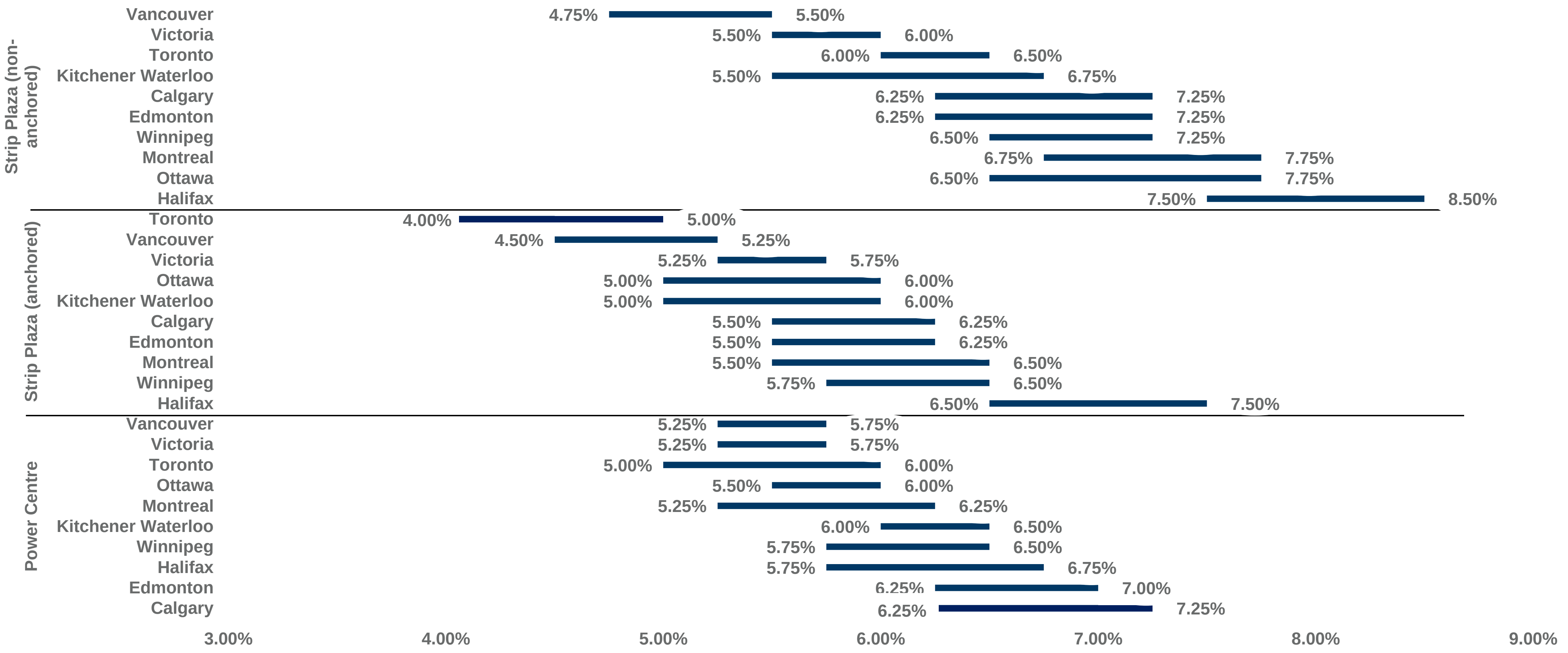
SENIORS HOUSING CAP RATES



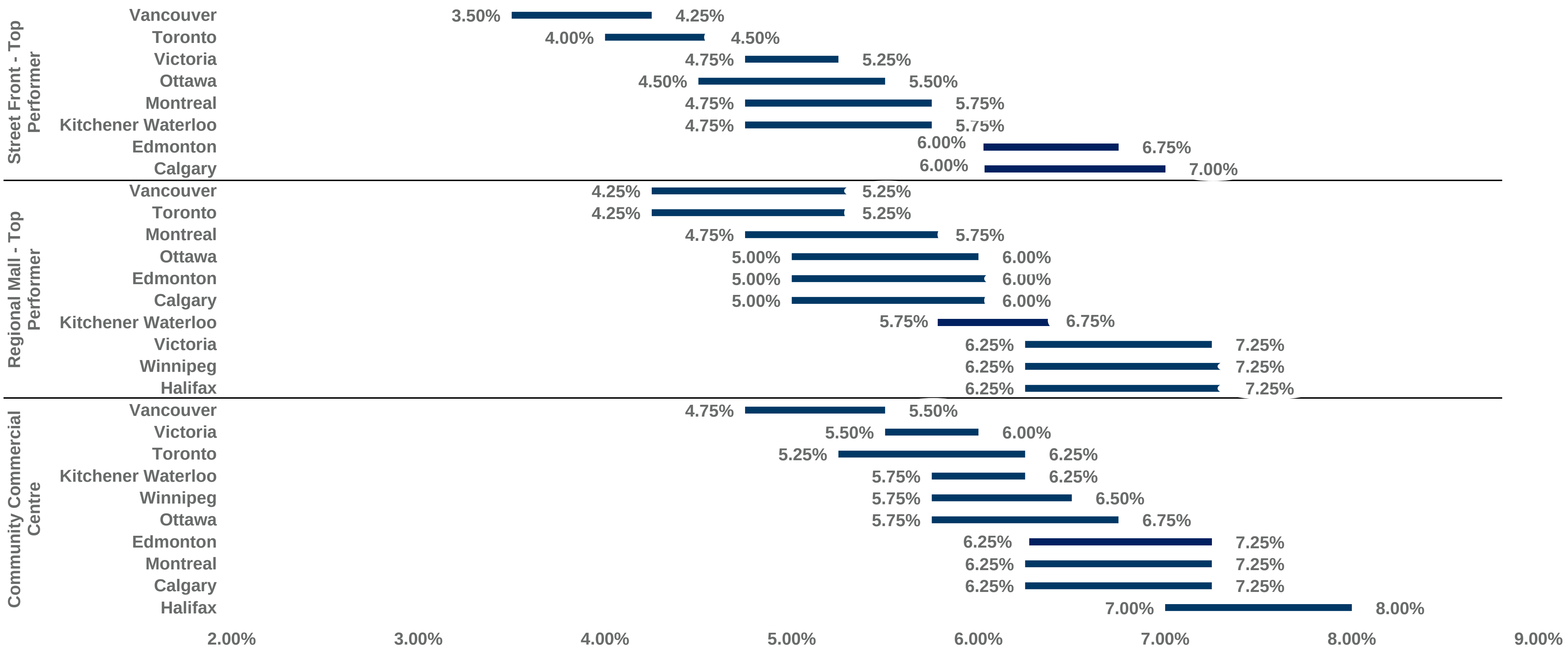
HOTEL CAP RATES



RETAIL CAP RATES



RETAIL CAP RATES



Q3 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%	◀▶	4.00%	4.50%	▲	5.75%	6.50%	▲	5.75%	6.75%	▲	5.25%	5.75%	▲	N/A	N/A	N/A	4.50%	5.25%	▲	4.25%	5.25%	▲	4.25%	5.25%	◀▶	N/A	N/A	N/A
A	5.00%	5.50%	◀▶	3.75%	4.50%	▲	7.00%	8.00%	▲	6.75%	8.00%	▲	5.50%	6.25%	▲	5.75%	6.25%	◀▶	4.75%	5.50%	▲	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%	▲	7.50%	8.25%	▲	6.25%	6.75%	◀▶	5.00%	6.00%	▲	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%	◀▶	6.50%	7.50%	▲	5.50%	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%	◀▶	7.50%	8.50%	▲	6.00%	7.50%	▲	6.50%	7.50%	◀▶	7.50%	8.50%	◀▶
INDUSTRIAL																														
A	5.50%	6.00%	◀▶	3.50%	4.25%	▲	4.25%	5.75%	▲	5.75%	6.75%	▲	5.25%	5.75%	▲	4.50%	5.00%	▲	3.75%	4.75%	▲	4.50%	5.25%	◀▶	4.00%	4.75%	▲	6.25%	7.00%	◀▶
B	5.75%	6.25%	◀▶	3.75%	4.75%	▲	5.75%	6.75%	▲	6.50%	7.50%	▲	6.00%	6.50%	▲	5.00%	5.50%	▲	4.50%	5.75%	▲	5.00%	6.00%	◀▶	4.50%	5.75%	▲	7.25%	7.75%	◀▶
APARTMENT																														
High Rise	3.25%	3.75%	◀▶	2.50%	3.00%	▲	4.25%	5.25%	▲	3.75%	4.75%	▲	4.75%	5.50%	▲	3.00%	4.50%	◀▶	3.00%	3.75%	◀▶	3.50%	4.50%	◀▶	3.50%	4.50%	▲	4.25%	5.25%	▲
Low Rise	3.50%	4.00%	◀▶	2.75%	3.50%	▲	4.75%	5.75%	▲	5.00%	6.00%	▲	5.00%	5.75%	▲	3.50%	5.00%	◀▶	3.25%	4.00%	◀▶	4.50%	5.00%	◀▶	4.25%	5.25%	◀▶	4.75%	5.75%	▲
SENIORS HOUSING																														
Seniors Housing "A"	5.50%	6.00%	▲	5.25%	5.75%	▲	6.25%	6.75%	▲	6.25%	7.00%	▲	6.50%	7.25%	▲	6.00%	6.75%	▲	5.75%	6.25%	▲	6.00%	6.50%	▲	6.00%	6.50%	▲	6.50%	7.25%	▲
Seniors Housing "B"	6.75%	7.75%	▲	6.50%	7.50%	▲	7.50%	8.50%	▲	7.75%	8.75%	▲	8.00%	9.00%	▲	7.50%	8.50%	▲	7.00%	8.00%	▲	7.50%	8.50%	▲	7.25%	8.50%	▲	8.25%	9.00%	▲
Long-Term Care "A"	7.00%	7.50%	▲	6.75%	7.25%	▲	7.25%	7.75%	▲	7.25%	8.00%	▲	8.00%	8.50%	▲	7.25%	7.75%	▲	7.25%	7.75%	▲	7.25%	7.75%	▲	7.75%	8.25%	▲	8.00%	8.50%	▲
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%	7.00%	▲	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	6.25%	7.25%	▲	4.25%	5.25%	▲	5.00%	6.00%	▲	5.00%	6.00%	▲	6.25%	7.25%	▲	5.75%	6.75%	▲	4.25%	5.25%	▲	5.00%	6.00%	▲	4.75%	5.75%	▲	6.25%	7.25%	▲
Power Centre	5.25%	5.75%	▲	5.25%	5.75%	▲	6.25%	7.25%	▲	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

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.

Q3 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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