Intelligent Investment

2023

# Canada Real Estate Market Outlook

REPORT

CBRE RESEARCH
FEBRUARY 2023

# Introduction

## A year of changes – positive, ultimately

Although expectations called for a return to stability in 2022, the pace of change did not let up and the year was anything but stable. Eight successive interest rate hikes by the Bank of Canada saw the pace of commercial real estate investment slow in the latter half of the year following the records set in the first half. 2022 proved to be an uneven year. Key indices including the TSX, oil pricing, housing prices, and Canadian REITs ended the year in the negative. However, context is key and when measured against early 2020, before this period of change, each of these indices yielded positive returns.

## More good than bad

2023 will see higher costs of capital impact asset values, however there is likely more good than bad to come. A soft landing is expected where the economy should see a technical recession while still being positive on the balance of the year. Capital market volumes are expected to rebound in the spring, interest rates will be closer to going down than up, and the continued growth of the digital economy will only benefit Canada.

## Across all key indicators, Canada set to lead G7

Housing affordability, commute times and decarbonization will prove harder to solve, requiring more attention from government, tenants and investors. While the pace of change will not ease, real estate is a long game where performance is driven in large part by the broader economy. Across all key indicators – population, GDP and employment growth – Canada is set to lead the G7 over the coming five years.

## Major trends in detail

Our 2023 outlook details the major trends that will dominate the year. Should you have any questions about how these trends could impact your specific real estate strategy, please do not hesitate to contact us.

Marc Meehan, Director, CBRE Research

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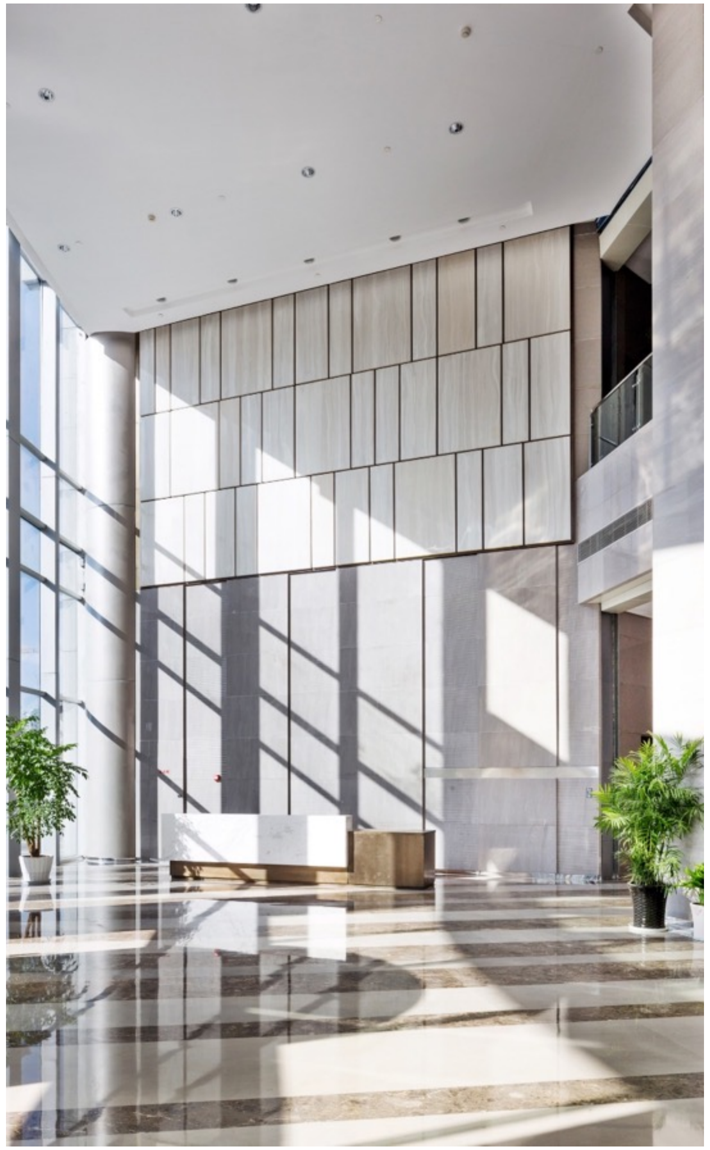


01

# Economy

Economic growth is expected to slow, but remain positive, in 2023 as the economy works through the impacts of tighter monetary policy. Inflation continues to cloud the near-term outlook but long-term fundamentals for Canada remain sound.

# Trends to Watch

## 01

Interest rates are expected to remain elevated throughout most of the year as the Bank of Canada monitors the lagged effects of monetary policy on the economy.

## 02

Forecasts suggest Canada might achieve a ‘soft landing’ in 2023, where the economy still records positive growth for the year despite a few quarters of near-zero growth.

## 03

Long-term fundamentals for the Canadian economy remain strong and will continue to attract global investment capital over the next few years.

# Bank of Canada to hold interest rates while waiting for inflation to cool

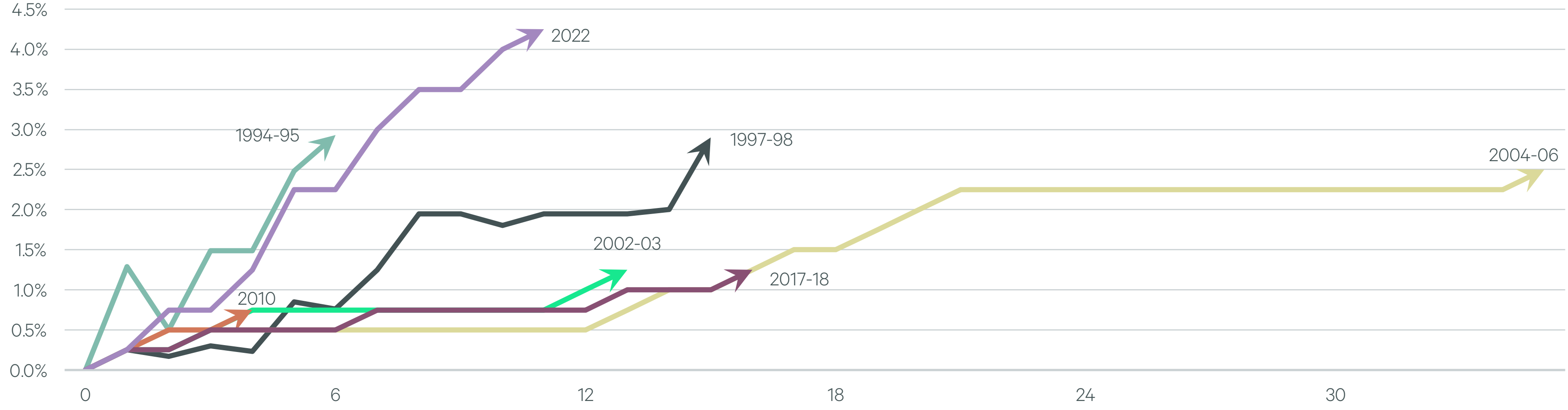
Persistently high inflation became a threat to many global economies in 2022. Major central banks took action to combat inflation by swiftly and aggressively raising interest rates. Over the course of eight consecutive rate hikes starting in March 2022, Canada's policy interest rate rose 425 basis points (bps) to a 15-year high of 4.50%.

This represented one of the fastest periods of monetary policy tightening in Canadian history and began to impact the economy in late 2022. With the prospect of slower growth ahead and inflation beginning to show some signs of cooling, the Bank of Canada has signaled it will pause further interest rate hikes to monitor the lag effects of monetary policy on the economy.

Until inflation returns and holds at the target level, the Bank of Canada is expecting to leave policy interest rates elevated. The central bank currently expects inflation to fall sharply to 2.6% by the end of 2023 before slowly narrowing to reach its 2.0% target by the end of 2024. As a result, if the economy progresses as expected, interest rates are likely to remain at current levels throughout most of the year. However, if inflation proves to be stubborn, the Bank of Canada will be ready to execute additional interest rate hikes as necessary.

**FIGURE 1: Canadian economy undergoing one of the fastest rate of monetary policy tightening in history**

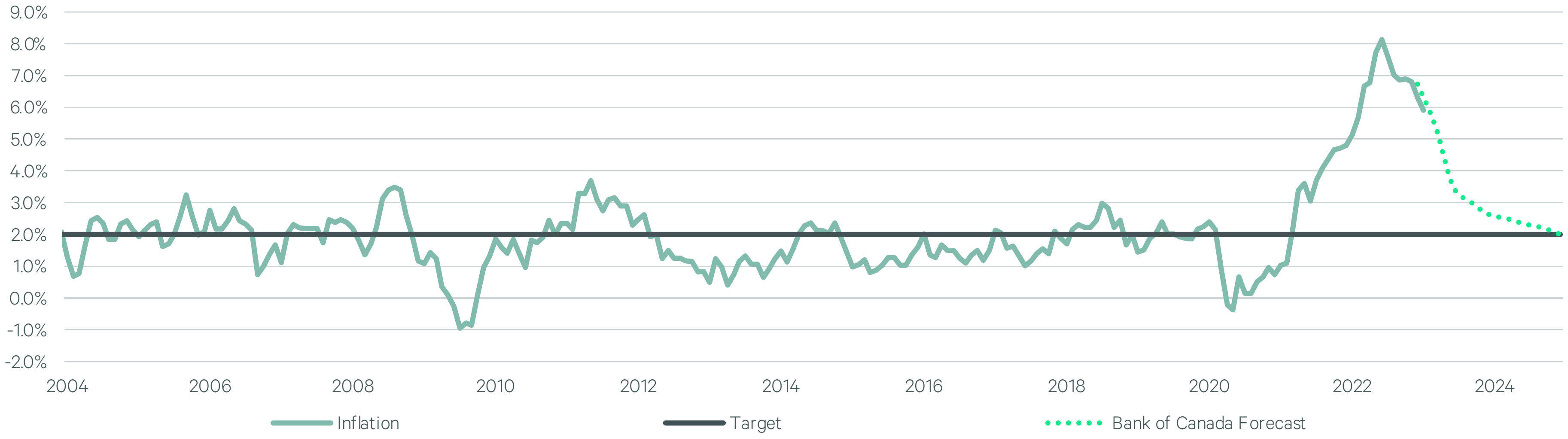
Increase in Bank of Canada Policy Interest Rates over Time (Months)




Source: CBRE Research, Refinitiv Eikon, 2023.

**FIGURE 2: Inflation beginning to cool and expected to return to target in late 2024**

CPI Year-over-Year Growth




Source: CBRE Research, Statistics Canada, Bank of Canada, 2023.

# Canadian economy aims for 'soft landing' scenario in 2023

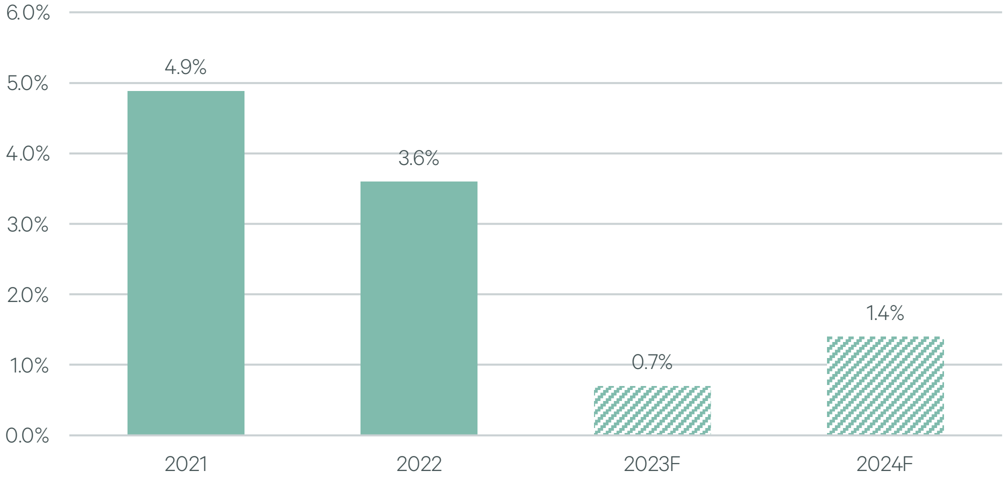
Canada is set to enter a period of near-zero growth throughout most of 2023 as high interest rates drag on the economy. With higher debt obligations, consumer spending on goods and services is expected to be subdued while business investments also slow. Overall, GDP growth through the first three quarters of 2023 are forecast to stall and potentially marginally contract. While the Bank of Canada assesses the odds of a technical recession in 2023 at roughly 50%, full year growth is still expected to be positive with a pick up in Q4 that brings annual GDP growth to approximately +0.7%.

This optimal scenario of a 'soft landing' for the Canadian economy is bolstered by the incredibly resilient labour market which ended 2022 with the national unemployment rate hovering near record lows. While expectations are for increasing job losses, the unemployment rate is projected to rise to 6.3% in 2023 and remain at a level still well below the long-term historical average for Canada.

Risks to the current outlook include a deeper housing correction and/or a more severe global slowdown than anticipated. If home prices fall more than expected, it would impact household wealth and further constrain domestic spending while weaker economies in major trading partners would result in lower demand for Canadian goods and services exports.

**FIGURE 3: Canada's economy forecast to enter a mild recession in 2023 but remain positive overall**

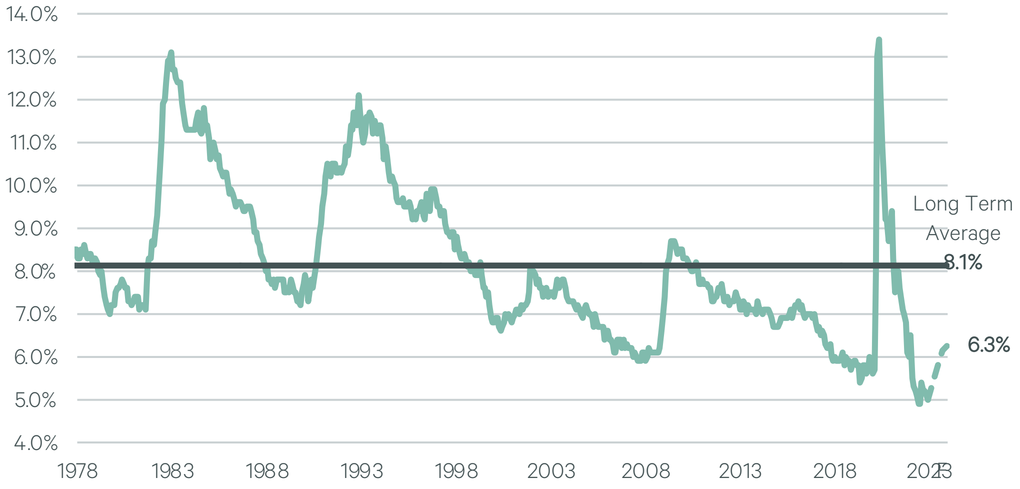
Annual Real GDP Growth




Source: CBRE Research, Statistics Canada, Major Canadian bank economic reports, 2023.

**FIGURE 4: Despite rising unemployment rate forecast, labour market will still be healthy**

Unemployment Rate




Source: CBRE Research, Statistics Canada, Major Canadian bank economic reports, 2023.

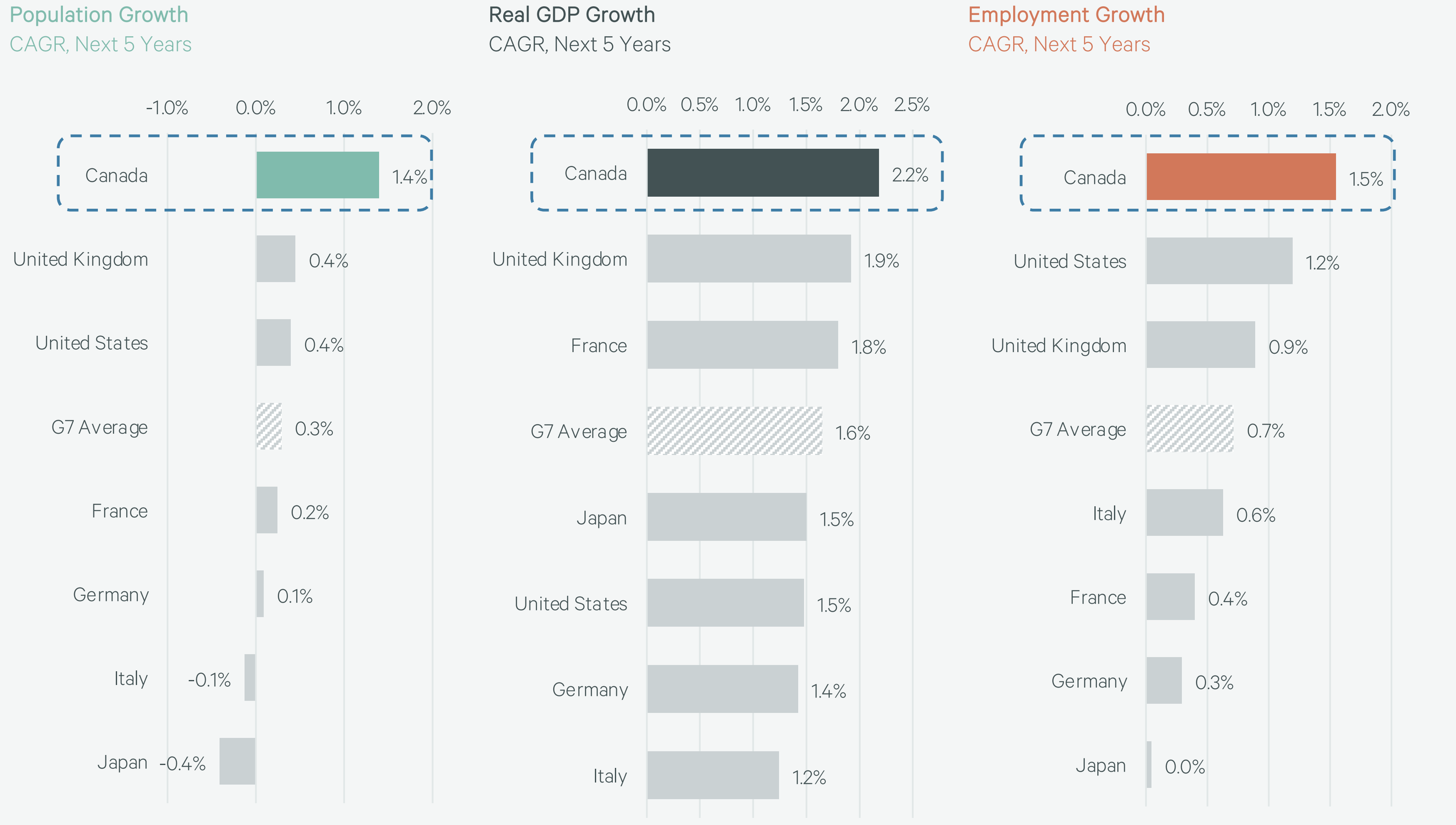
# Long-term fundamentals remain sound in Canada

The longer-term outlook for the Canadian economy remains bright with Canada set to outperform its G7 peers on population, GDP and employment growth over the next five years. In particular, Canada's accommodative and targeted immigration policies will provide strong underlying support for economic growth for years to come. With a target of 1.45 million new immigrants over just the next three years, this will provide a significant boost to Canada's population while also filling in gaps in the labour market.

Coupled with a comparatively functional government and strong financial system, Canada is well-positioned to offer attractive and safe investment opportunities for global capital over the long-term. Overall, the positive outlook for the Canada economy provides a solid foundation for continued strength in the commercial real estate sector.

Canada is well-positioned to offer attractive and safe investment opportunities for global capital over the long-term.

**FIGURE 5: Canada set to lead the G7 over the next 5 years on major economic growth indicators**




Source: CBRE Research, Oxford Economics, 2023.

02

# Capital Markets

Canadian real estate capital markets activity comes off a strong 2022 and is expected to yield another year of solid investment volumes in 2023, despite rising cap rates and some volatility among certain sectors.

# Trends to Watch

## 01

Investment volumes for 2023 are anticipated to reach similar levels as seen over the last two years as interest rate and economic uncertainty eases.

## 02

Capitalization rates will continue to rise in 2023, but the upwards pressure will be mitigated by continued market strength in certain sectors.

## 03

Investors hoping to act at the bottom of the cycle may find that window to be shorter than in previous downturns as a soft landing for the economy and stabilization in interest rates could solidify confidence and pricing while bolstering market activity in the later half of the year.

# Another solid year in store for investment volumes in 2023

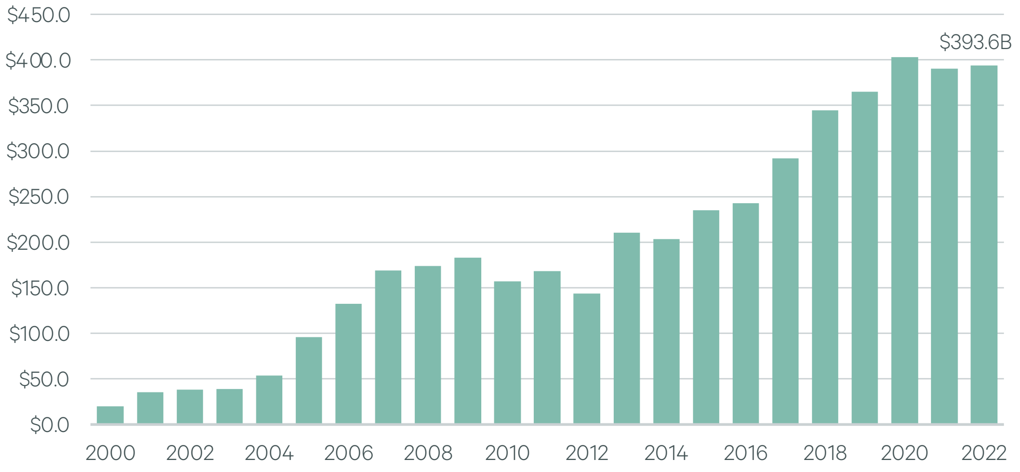
In a year characterized by heightened volatility and weakening sentiment, Canadian commercial real estate investment activity levels were surprisingly strong. Totaling $58.5 billion over 2022, investment volumes nearly matched the record amount set the year prior.

For 2023, the investment market faces headwinds from tougher financing conditions and a potential economic slowdown inhibiting some investors. However, the immense amount of global dry powder targeting real estate, coupled with greater certainty around interest rates, are forecast to outweigh these headwinds and lead to an active 2023. Mergers and acquisitions activity and other high-profile deals expected to close this year will also become a catalyst for more transactions to come.

Expectations are for another one or two quarters of softer investment volumes, similar to the levels seen in the latter half of 2022, before activity rebounds to the levels seen in the last couple years. Overall, momentum is forecast build over 2023 for another solid year of investment transaction activity.

**FIGURE 6: Investors have ample capital to deploy into real estate**

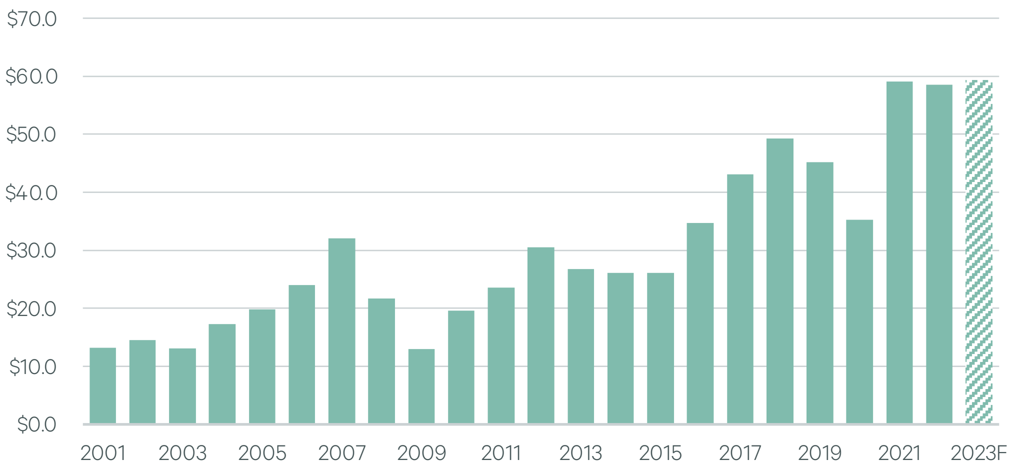
Global Real Estate Dry Powder, US$ Billions



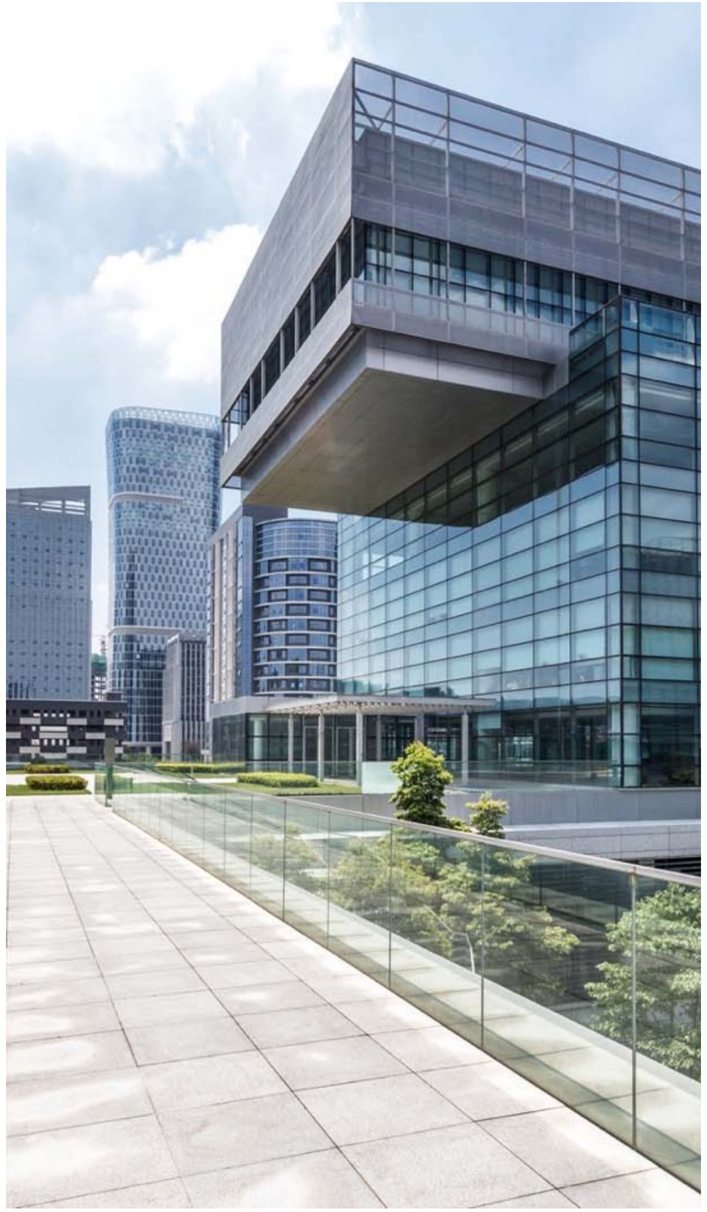

Source: CBRE Research, Preqin, 2022.

**FIGURE 7: Canadian investment volumes proving surprisingly resilient**

National Investment Activity, C$ Billions




Source: CBRE Research, 2023.

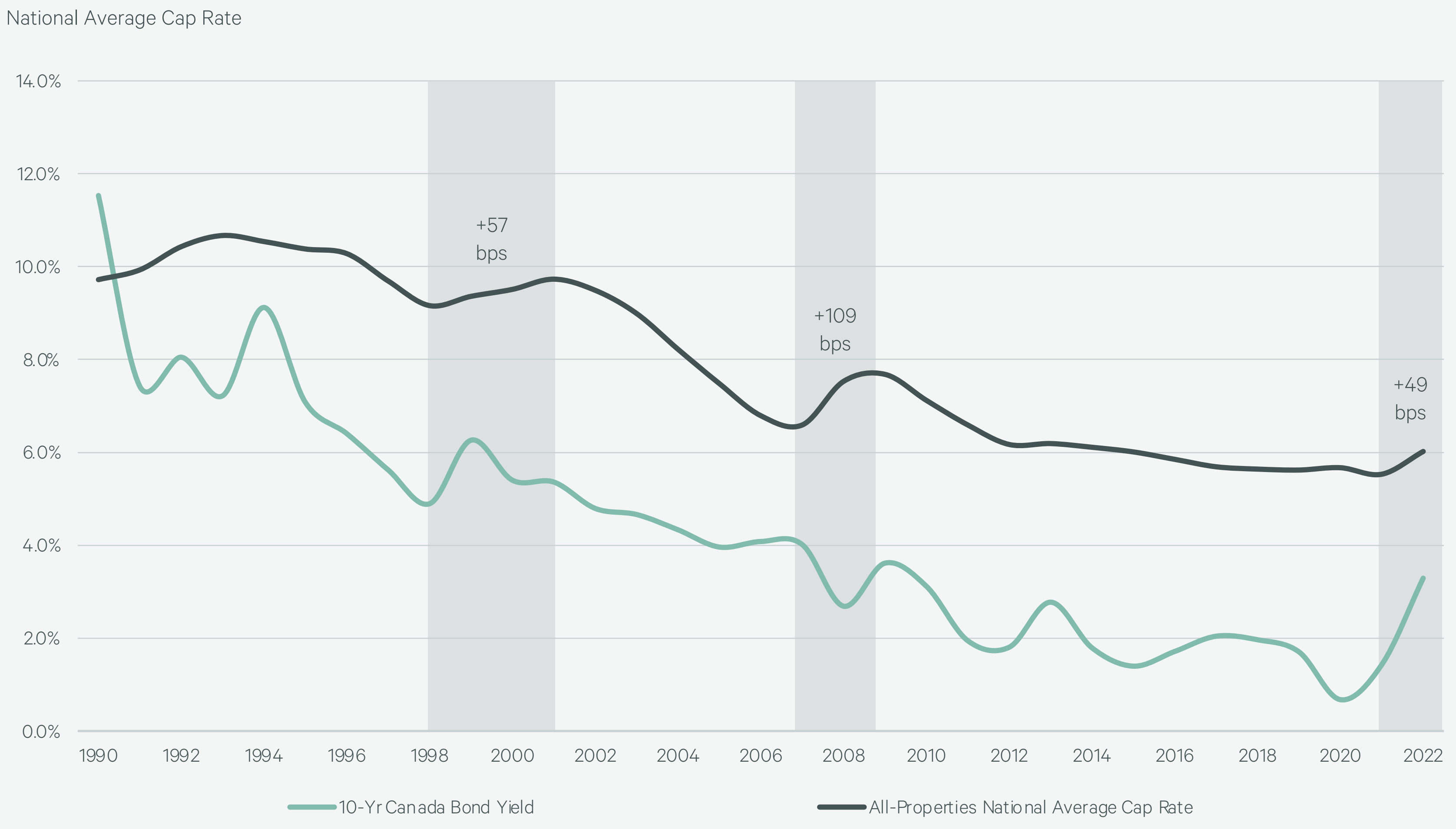


# Cap rates to continue rising in 2023 as the market adapts to a new investment era

Capitalization rates had started to rise in 2022 as escalating interest rates drove up the cost of debt financing across all sectors of real estate. While this resulted in the first notable increase to Canadian cap rates in 14 years, the speed and magnitude of the increase so far has been much more muted relative to the Global Financial Crisis. Real estate values have held on better this time with the national average all-properties cap rate only rising 49 bps in 2022 to 6.02%, remaining well below the previous peak in 2009.

In 2023, cap rates are expected to rise further to accommodate the higher cost of debt and bring real estate spreads closer to historic norms. However, the continued yield increases will not be uniform across asset classes as strong market fundamentals in certain segments, namely multifamily and industrial, will offset some of the upwards pressure on cap rates. This fragmentation of the real estate sector in 2023 will likely lead to a wider variation in performance among asset classes and cities than ever before. Price discovery will also be a major theme in early 2023 as buyers and sellers navigate this new investment environment. Finally, the prospect of potential interest rate cuts in early 2024 could also alleviate some upwards pressure on cap rates.

**FIGURE 8: Cap rates begin upwards trajectory as spreads shrink**




Source: CBRE Research, Refinitiv Eikon, Q4 2022.

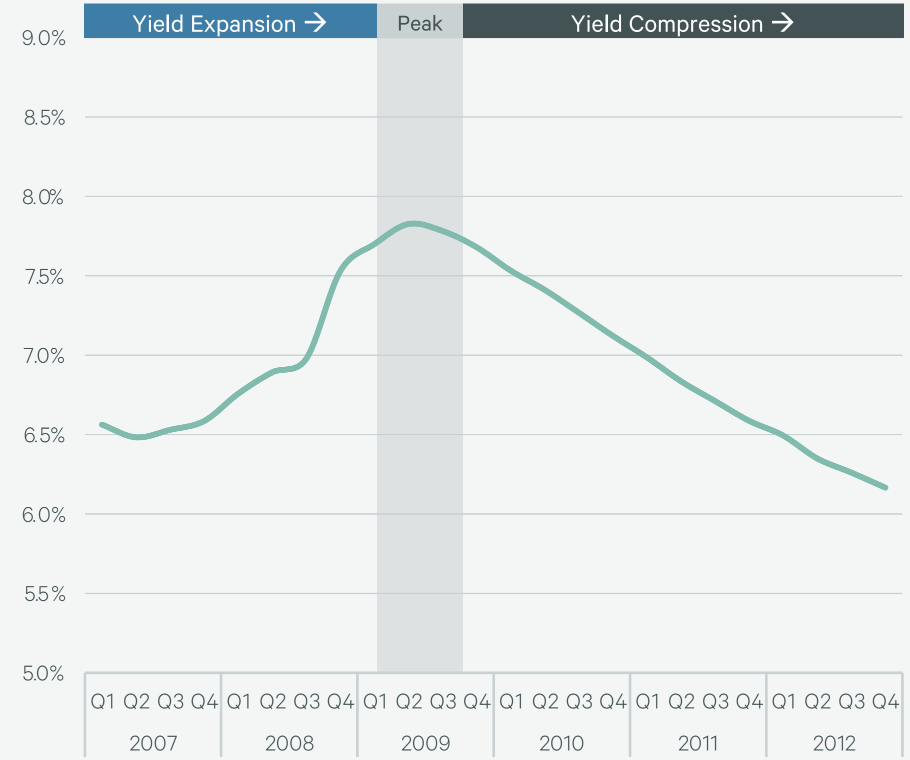
# Window of buying opportunities to be short lived, if at all

Well-capitalized buyers looking to take advantage of the current re-pricing in commercial real estate assets will likely have a short window of opportunity in 2023, if any. In particular for asset classes facing headwinds that are temporary in nature, pricing that's come off of record highs is unlikely to last long. Given expectations for a relatively modest economic slowdown and potential interest rate cuts in early 2024, the window of opportunity for buyers may be even shorter than seen in previous downturns. Trough pricing lasted for less than three quarters in 2009 following the global financial crisis.

Heading into 2023, economic and interest rate uncertainty led to softer transaction volumes and a widening spread between bid and ask prices. Acquisition opportunities will be largely dictated by the strength of individual balance sheets and portfolio mandates. Groups such as closed-ended or private funds with strong balance sheets and longer investment horizons are likely to maintain their existing portfolios and wait out any volatility. However, open-ended funds and publicly traded entities could face more pressure to sell in 2023, though even in these cases management may not be moved to ultimately sell assets. Activity will build momentum in the investment market and narrow the bid-ask spread as the year progresses.

**FIGURE 9: Trough pricing lasted less than 3 quarters in GFC**

National Average Cap Rate (2007 – 2012)




Source: CBRE Research, 2023.

03

# Decarbonization

Reducing environmental impact has become a top priority for companies across the world with the built form presenting a major opportunity to reduce emissions and meet ESG requirements. In Canada, owners and investors are making inroads as it relates to decarbonization, construction, and financing, paving the way for a more sustainable future.

# Trends to Watch

## 01

Commercial real estate presents a major obstacle and opportunity as it relates to meeting the goals set out by the Paris Agreement. Owners and operators will upgrade, retrofit and decarbonize assets in the years ahead, all with the goal to reduce emissions and achieve net zero carbon operations.

## 02

Creative financing solutions are needed to support carbon retrofits as these projects often return positive rates of return, though below the cost of borrowing. CMHC's MLI Select program will promote climate, affordability and accessibility advances within the residential sector.

## 03

Mass timber has emerged as a popular building material, acting as a more sustainable built form. Various commercial and residential developments are planned or underway in British Columbia, Ontario and Quebec that will double the count of significant developments in Canada.

# ESG, Decarbonization and Real Estate

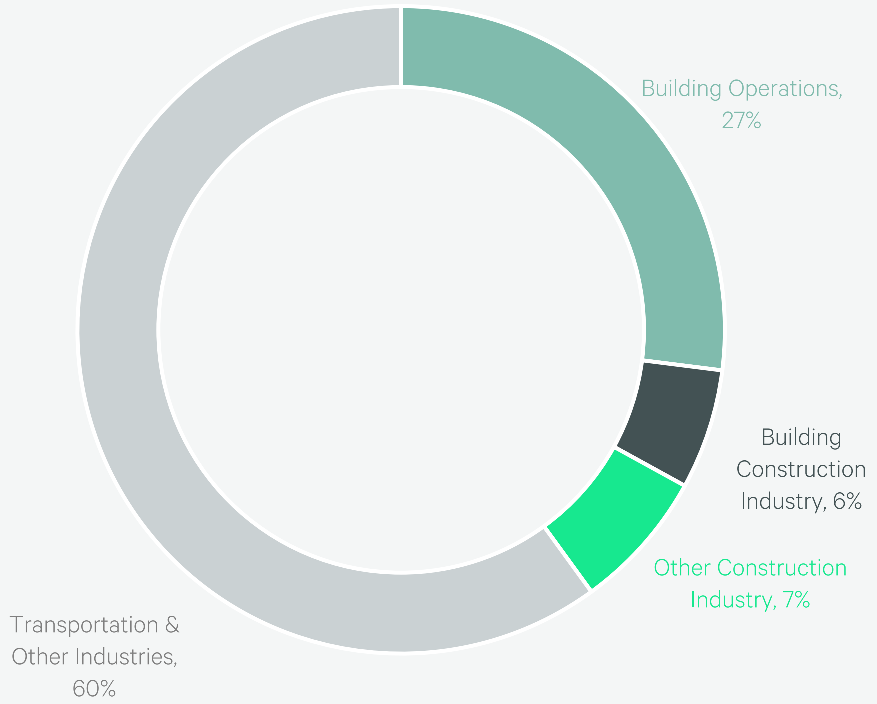
CBRE's Occupier Client Priorities Survey found that 75% of clients consider ESG as one of their top five areas of focus; further, 11% cited ESG as the top consideration determining their real estate strategy. With the built environment responsible for 40% of annual global $CO^2$ emissions, there is no understating the large role that commercial real estate plays when it comes to setting and meeting ESG objectives.

Building operations make up the bulk of emissions and as such major commitments are required by owners to reduce the environmental impact of their portfolios. According to the Carbon Risk in Real Estate Monitor and the Global Real Estate Sustainability Benchmark, there is still work to be done with 37% of global buildings needing decarbonization by 2030 to achieve goals set out in the Paris Agreement.

Closer to home, the Canada Green Building Council (CaGBC) estimates that owners and operators will need to upgrade, retrofit, and decarbonize over a billion sq. ft. of existing building space in order for Canada to achieve its 2030 and 2050 reduced emissions goals. Their study found that office properties presented the greatest opportunity, with nearly all office archetypes being able to reach net zero carbon operations while achieving a positive net present value. Enclosure upgrades were found to yield the greatest energy demand reductions.

**FIGURE 10: The built environment is responsible for 40% of global emissions**

Annual Global $CO^2$ Emissions by Source




Source: International Energy Agency, 2022.

## Decarbonization? Net zero?

Decarbonization is the permanent removal of carbon emissions from building operations through energy demand reduction, electrification, renewable energy, and other measures.

A net zero-carbon building is a highly energy efficient building that either produces on-site or procures non-emitting renewable energy or high-quality carbon offsets to counterbalance the annual carbon emissions from its materials and operations.

Source: CaGBC, 2021.

Owners and operators will need to upgrade, retrofit, and decarbonize over a billion sq. ft. of existing building space in order for Canada to achieve its 2030 and 2050 reduced emissions goals.

## Sustainable finance and commercial real estate

Financial viability stands as one of the largest hurdles in the sector's path to decarbonization. Carbon pricing and the implementation of building performance standards will go a long way towards improving the case for deep carbon retrofits by increasing the cost of inaction, and therefore the financial benefits of retrofits. Supportive financing will however also be needed.

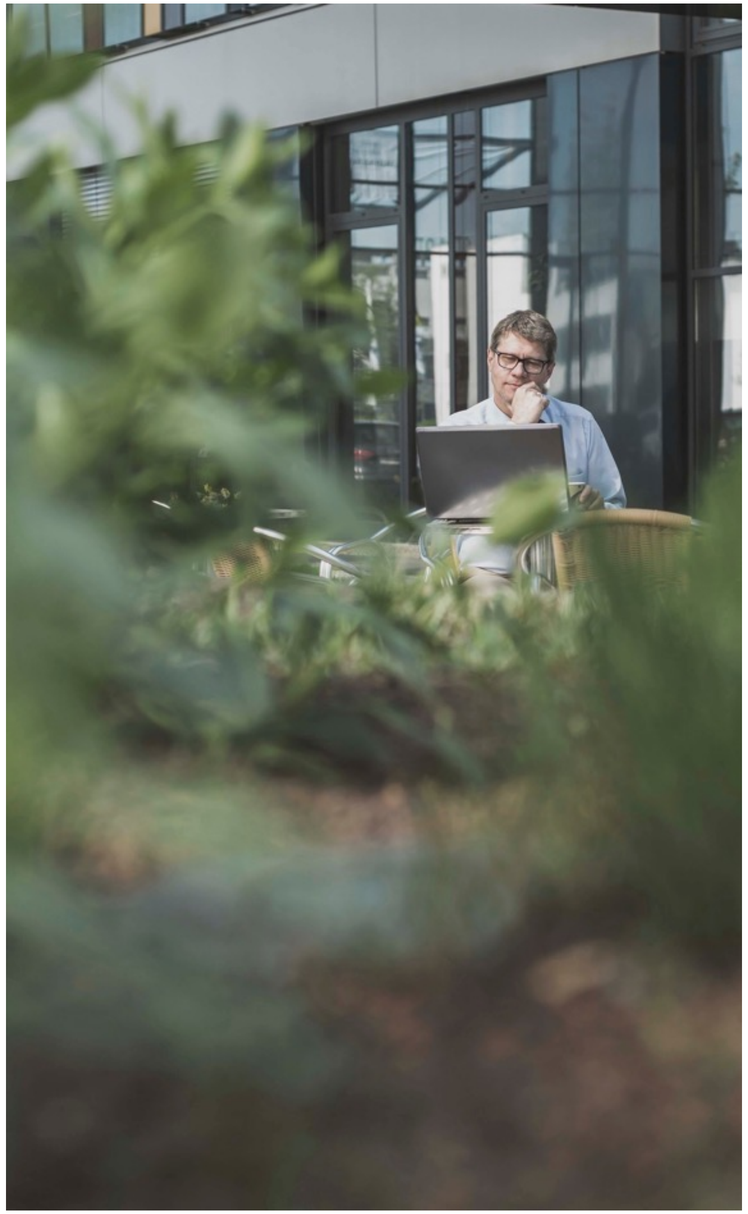
## Why financing options are needed

The CaBGC found that deep carbon retrofits were financially viable for 17 of the 50 building archetypes part of their study. Retrofits in a further 28 generated positive internal rates of return, but below that of the cost of capital or borrowing. Reducing the cost of financing through programs like Canada Infrastructure Bank's $2 billion Building Retrofits Initiative will help improve the financial viability of these projects.

## The greater challenges in residential

Residential, for its part, has a harder case. Greater challenges in managing peak energy demands and a lower baseline starting point mean that retrofits will be less cost effective on average. Greater support will therefore be needed in this sector.

CMHC's MLI Select is one such program, where access to reduced premiums, higher loan-to-value ratios, and amortization periods of up to 50 years are available to owners of sustainable assets. A points system incentivizes affordability, energy efficiency, and accessibility.



## Conventional mortgage financing to come under pressure

Even conventional mortgage financing will come under pressure as international carbon accounting guidelines see the carbon footprints of building be attributed to lenders in proportion with the originating loan-to-value ratio.

CBRE's 2022 Annual Lender Survey found that one in five lenders had declined to bid on a real estate loan due to the underlying asset's ESG profile. 86% of lenders had or planned to incorporate ESG in their lending decision, with the majority expecting that mortgage terms would be materially affected by the asset's carbon footprints in the next 3 - 5 years.

### MLI Select - How an Existing Property could access the best incentives:

- **Affordability:** 40% of units at 30% of median renter income;
- **Energy efficiency:** 15% reduction over current performance; and
- **Accessibility:** 15% of units are universal design.

> Even a 25% reduction in energy usage by itself would be enough for the property qualify for the most basic benefits of the MLI Select program.

# Built form

Regulatory frameworks around sustainability standards are still being laid out in Canada with major cities often leading the cause through the establishment of standards for new buildings. Vancouver and Toronto have both set net-zero greenhouse gas emission targets for all new buildings by 2030 for example, and even sooner by 2025 in Montreal. The embodied carbon from building materials and construction is responsible for a significant portion of global emissions and cannot be overlooked.

Mass timber has emerged as an increasingly popular building material as it both sequesters carbon and uses less energy to manufacture than concrete or steel, which are jointly responsible for over 20% of global $CO^2$ emissions. New mass timber commercial and residential projects in British Columbia, Ontario, Quebec will double the count of large-scale mass timber developments in Canada. The regulatory framework of these projects continues to evolve with the National Building Code of Canada allowing for wood buildings up to 12 stories tall as of 2022, unlocking further potential and opportunities for future growth.

Vancouver and Toronto have both set net-zero greenhouse gas emission targets for all new buildings by 2030 for example, and even sooner by 2025 in Montreal.

**FIGURE 11: Pipeline to double the amount of large-scale mass timber developments in Canada**

Count of Commercial and Residential Mass Timber Properties by Year Completed


Commercial and residential projects over 100,000 sq. ft.
Source: CBRE Research, Green Construction through Wood, Government of Canada, 2023.

04

# Office/Occupier

Employers will grapple with how to improve office utilization while maintaining employee satisfaction and fostering engagement. These motivations will drive location selection decisions and lead to further market bifurcation. One thing which remains clear, however, is that the office remains a critical factor for success to companies.

# Trends to Watch

01

Spaces that help attract workers back to the office will be a priority as employers aim to increase office attendance. Commute times have emerged as a key factor for employee satisfaction and will be as important as amenities and design in site selection.

02

The performance of office space will continue to bifurcate, with highly differentiated office space outperforming commodity space. Not all buildings are created equal, however, and it is therefore likely that this will keep structural vacancy rates elevated amongst certain product types.

03

Despite the headwinds facing the office sector, Canada remains well-positioned on a relative basis. Canadian cities have some of the lowest office vacancy rates in North America and, looking forward, Canada leads the G7 in employment growth, the single best indicator of office space demand.

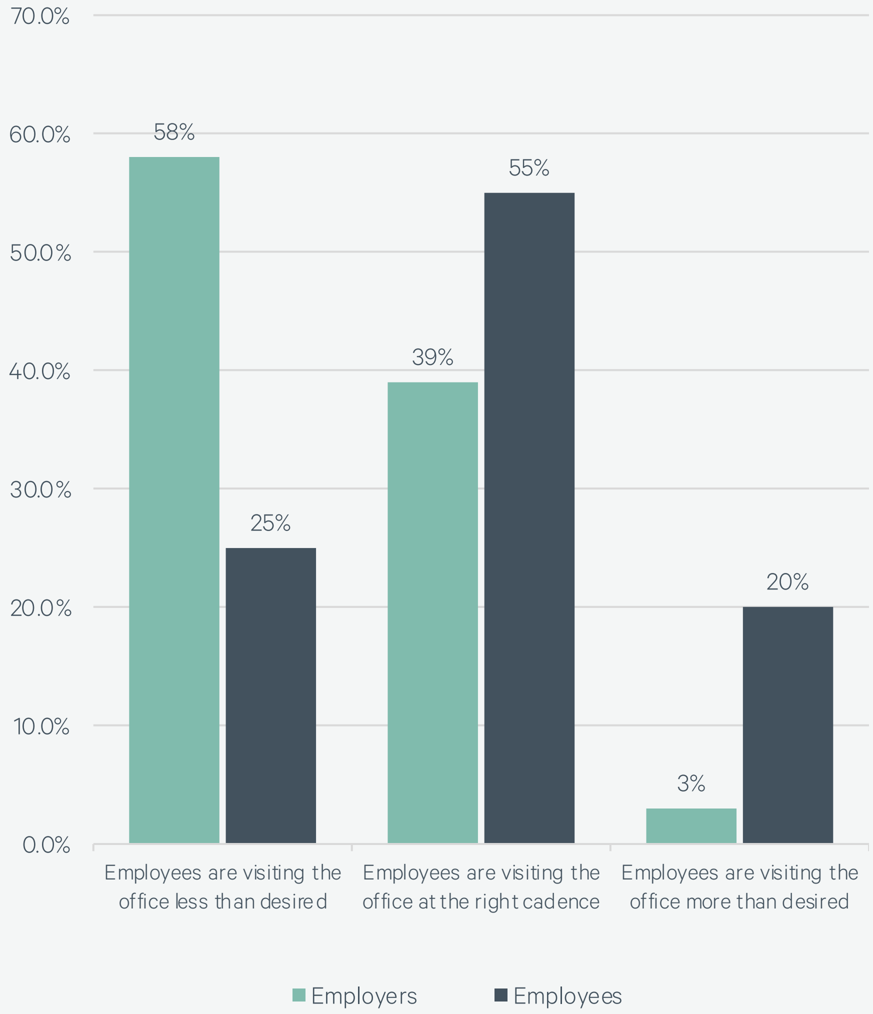
# Office utilization to increase, albeit slower than desired

One consequence of the pandemic has been an emphasis on improved work-life balance and a strong wish to retain flexibility. The widespread adoption of hybrid work has meant that workers are spending less time in the office.

Despite most companies viewing office attendance as critical to their success, many workers want the autonomy to decide where and when they work. It is likely that utilization rates won't meet employer expectations in the year ahead. As companies find their optimal balance over the coming years, office utilization and the space needed per worker will reach a new equilibrium. To get there, employers will need to deploy more pointed strategies that take into account what is most important to their workers.

Spaces that help attract workers back to the office will be a priority, however amenities alone won't be enough. CBRE's Live-Work-Shop Report found that workers with shorter commutes were more likely to be satisfied with the quality of their office. In fact, commute times were cited as the second most important factor after pay and benefits when taking a job. Among Canadian respondents, over 80% want a one-way commute time of no more than 30 minutes, and yet cities like Toronto and Montreal are often cited among the worst for traffic or commute times in North America. Forward thinking tenants in these markets are expected to use the coming year as an opportunity to relocate to properties with the best accessibility profiles.

**FIGURE 12: Employers' vs. employees' perception of return to office**




Source: CBRE Office Occupier Survey, August 2022.

# Bifurcation of office space to continue

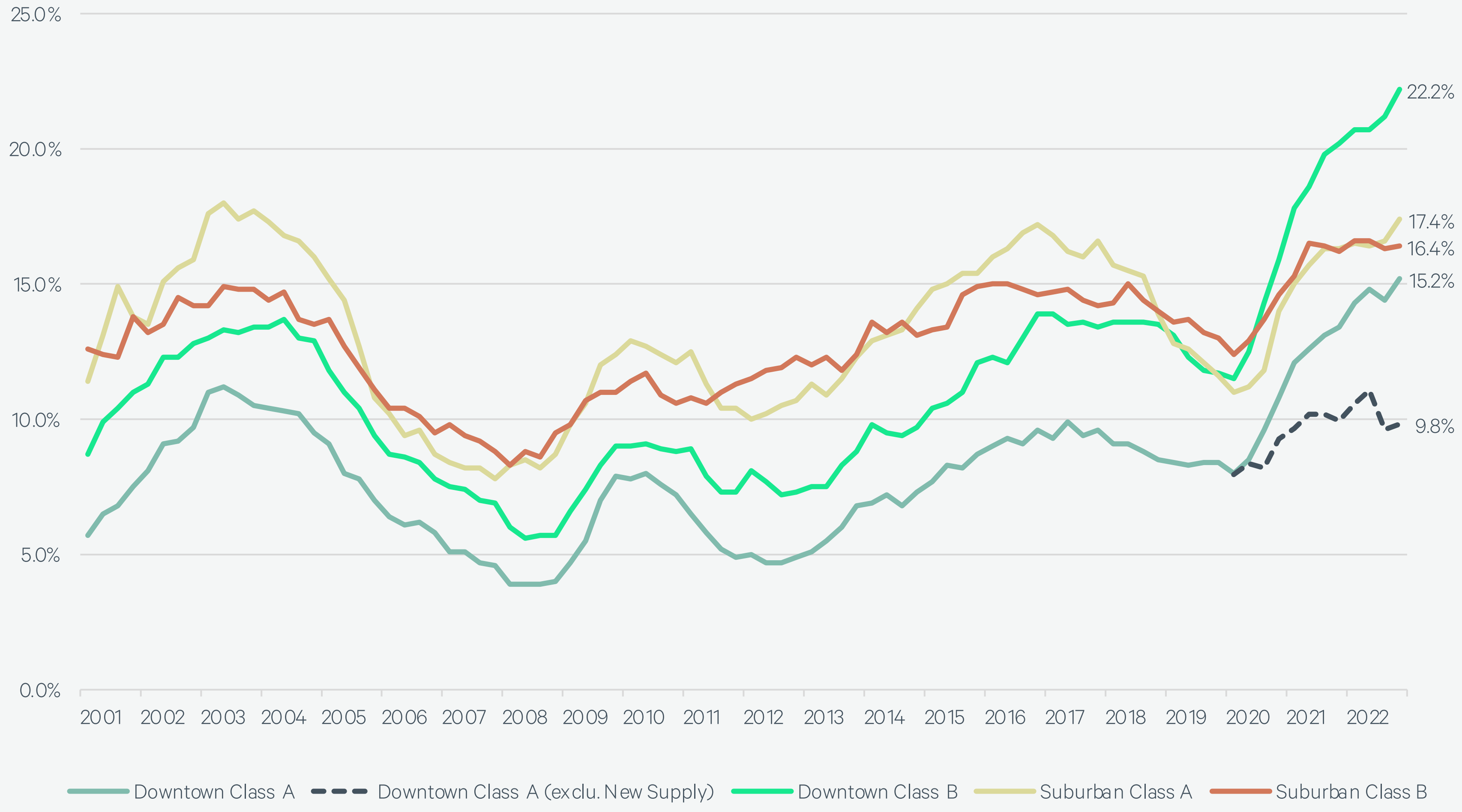
Tenants are demanding more from their spaces on their path to higher engagement and office utilization rates, and in doing so are prioritizing high-quality spaces that support new ways of working. Not all buildings are created equal and the bifurcation of office space seen today will only further widen.

Older downtown product with outdated amenities has struggled to attract and retain tenants. Historically, office product types have moved in unison, largely following the same patterns of rising or falling vacancy. This no longer holds true for the downtown Class B segment which has fully decoupled from not only Class A, but also all classes of suburban office space, where employees benefit from shorter commute times. The demand for cheap commodity space has evaporated and been replaced with the want for spaces that act as conductors for business productivity and development. As vacancy continues to worsen in these assets, so too does their outlook. Conversions to residential are increasingly discussed, but feasible opportunities are limited; instead, these properties will need to be retrofitted to attract new tenants or even demolished to make way for better uses.

Among Class A downtown towers, new supply is the principal reason for currently elevated vacancy rates. In Vancouver, more supply will have been added in a three year period than at any other point in history, and in Toronto, roughly 11.0 million sq. ft. of supply has come online since 2020. If netting out the impact of these new towers, the national downtown Class A vacancy rate would have ended the year under 10.0%, over 500 bps below where it currently is.

**FIGURE 13: Not all buildings are created equal, bifurcation of office space to widen**

National Office Vacancy by Segment (%)




Source: CBRE Research, Q4 2022.

# Despite the various headwinds, Canada's office sector remains well-positioned

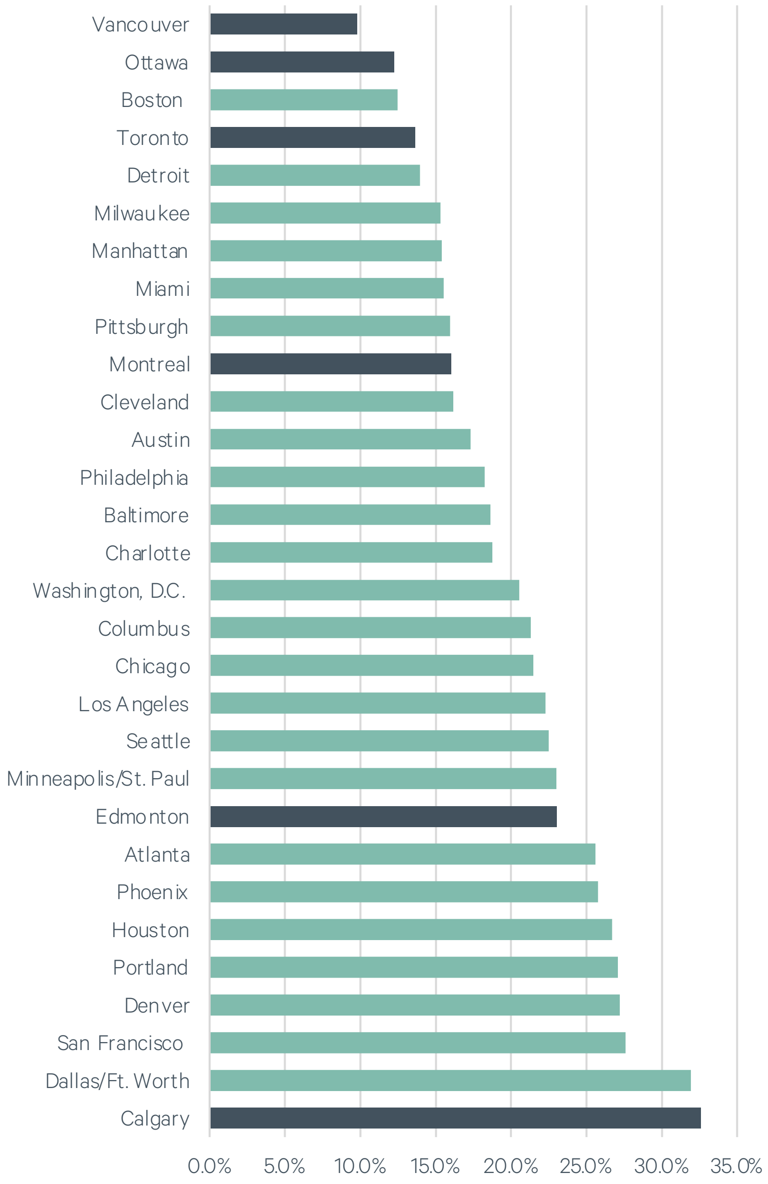
In terms of current conditions, Canadian cities have continually ranked among the best performing on a relative basis. Among the 30 largest markets in North America, Canadian downtown vacancy rates are among the lowest and comprise four of tightest, with Vancouver and Ottawa in the top two spots throughout 2022.

Looking ahead, Canada's outlook is also strong on a relative basis. Employment growth has historically proven to be the best indicator of office demand and Canada is forecast to outstrip its G7 peers in employment growth. Major markets of Toronto, Montreal, and Calgary are anticipated to account for approximately one-third of total jobs added, meanwhile, cities in the Prairies including Calgary, Saskatoon, and Edmonton will see the highest rate of growth, all exceeding cumulative growth of over 10%.

There are a variety of factors that underpin the Canadian office market which will provide stability over the long term horizon. For example, Canada's favourable immigration policies which bring in highly-skilled workers into our labour pool. Additionally, it is approximately 50% cheaper for U.S. tech firms to operate in Canada when labour and real estate costs are taken into consideration. This will serve us well for years to come since the emphasis on costs and the need for quality workers is unlikely to fade.

**FIGURE 14: Canadian cities best performing amongst the 30 largest in North America**

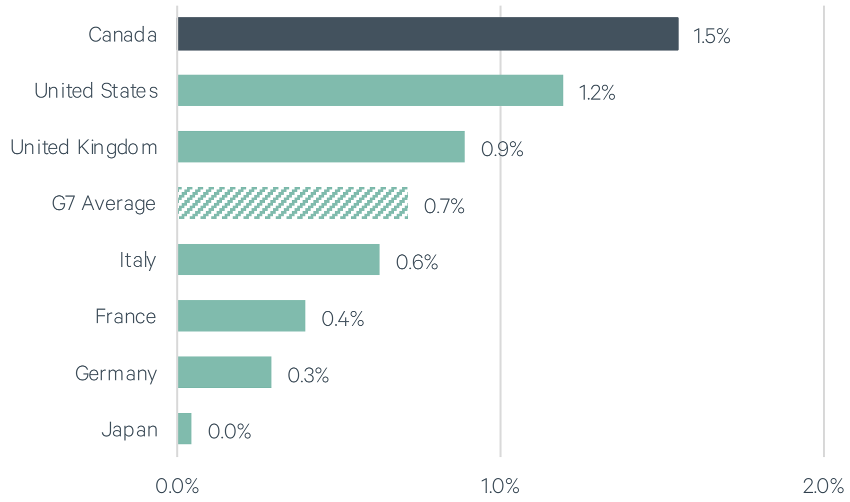
Downtown Office Vacancy (%)




Source: CBRE Research, Q4 2022.

**FIGURE 15: Canada tops G7 for future employment outlook**

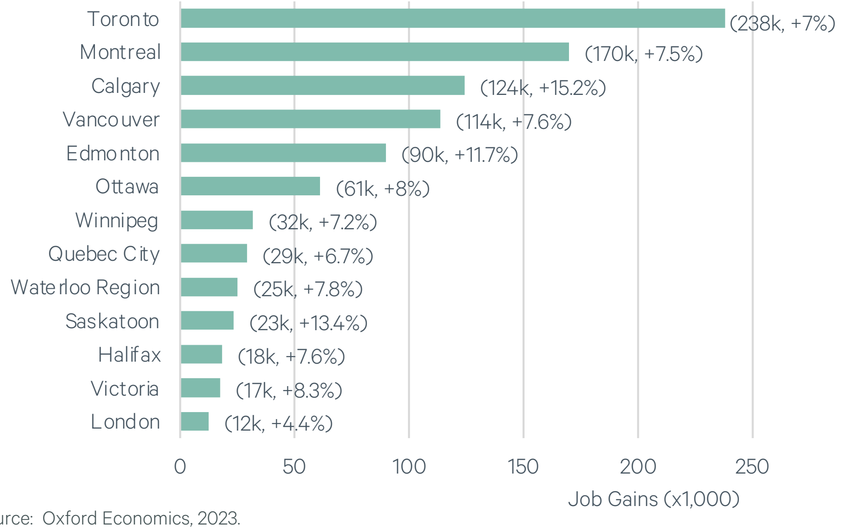
G7 Employment Growth, Next 5 Years (CAGR)




Source: Oxford Economics, 2023.

**FIGURE 16: Cities across Canada anticipated to see job gains**

Employment Growth by Market, Next 5 Years




Source: Oxford Economics, 2023.

05

# Retail

Priorities will shift in the year ahead for retailers, consumers and owners. Development will focus on repositioning existing assets, meanwhile mounting economic pressures will see consumer spending habits change as retailers leverage the value of their physical stores.

# Trends to Watch

## 01

The latest wave of development will see mall assets be repositioned into centres that cater to all facets of live-work-play. Major projects have been announced that will add density to existing properties through residential towers to unlock value in underutilized parking or surrounding surface lots.

## 02

Inflation and elevated interest rates have started to constrain wallets and ultimately will lead to a more cautious consumer in the year ahead. Both retailers and consumers will be more cost-conscious, however quality of service is not to be overlooked.

## 03

The relationship between online and offline has continued to evolve, however the role of the store has never been more important. Despite the rise of e-commerce during the pandemic, Canadians have returned to physical retail spaces, seeking experiences and services that cannot be offered online.

## The lifecycle of a Canadian mall: build, redevelop, densify

Malls across Canada have undergone various waves of development and redevelopment, and are gearing up to evolve once again.

Today, the average age of regional and super regional shopping malls is approximately 50 years, with nearly 80% of centres built in 1980 or earlier. For the most part, few centres saw improvements until recently. In the last decade, owners have poured over $4.0 billion into renovating and retrofitting the top 30 most productive assets in Canada. This was an opportunistic time that saw the roll of the mall change, with many anchor sites sitting empty from the exit of Sears and Target, and ushered in new food halls, restaurants, and other entertainment-based uses.

Owners have recently shifted focus on repositioning mall assets once again by adding density and undergoing infill projects to unlock value in underutilized parking or surrounding surface lots. This is especially true in prime trade areas, transforming sites into transit-oriented master-planned, vibrant centres that capture all facets of a live-work-play environment. Of the 30 top performing regional shopping malls in Canada, over half have announced plans or are currently undergoing massive redevelopment efforts that will add thousands of residential units to the immediate site. These projects are multi-phased and will see centres transform with initial stages of development due over the next year and beyond.

This trend is not exclusive to premier sites, however, which continue to remain in demand. Second – and third-tier assets meanwhile are facing significant headwinds. It is likely we will see more infill development of this nature announced in the year ahead, especially among these lower-performing assets which have become increasingly expensive to operate.

**~50 years**

Average age of regional and super regional shopping malls in Canada

**>$4.0B**

Spent in the last decade on renovations and retrofitting by owners across the top 30 most productive malls

Of the top 30 performing regional shopping malls in Canada, over half have either announced plans or are currently undergoing massive redevelopment efforts that will add thousands of residential units to the immediate site.

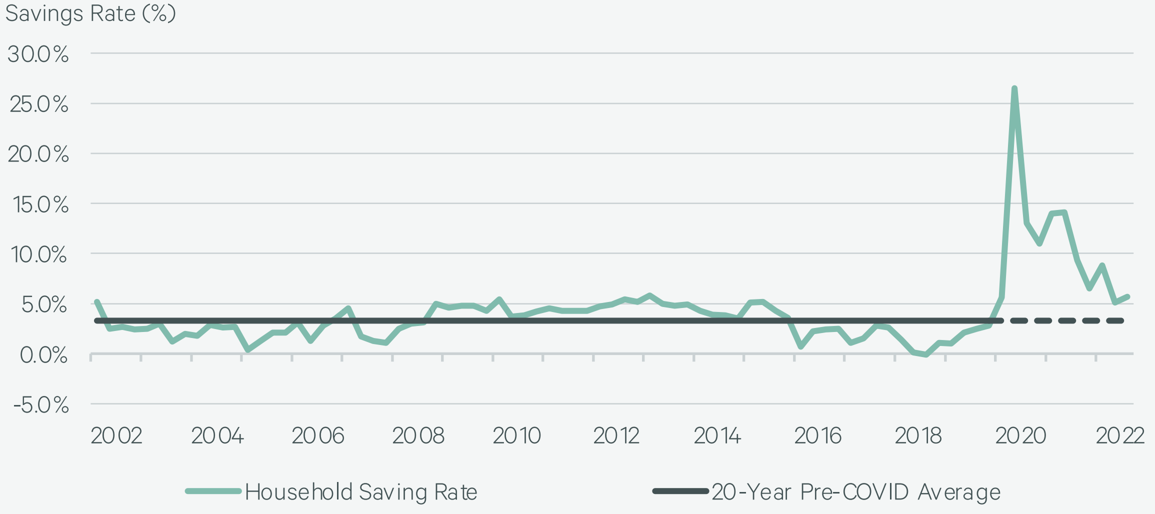
# Mounting pressure on consumer wallets to shift spending habits

Coming out of lockdown, pent up demand led consumers to take part in revenge shopping. Spending habits have started to cool and are anticipated to slow further in the year ahead with Oxford Economics forecasting a 1.7% decline in retail trade. Inflation and elevated interest rates have started to constrain wallets and ultimately will lead to a more cautious consumer in 2023.

The Canadian household savings rate has come off its peak and debt-to-disposable income levels are once again rising. Discretionary spending is likely to be impacted as Canadians debt loads are heighted amid record levels of inflation, with sales in select categories to be more acutely impacted than others. For example, grocery sales are expected to remain elevated given that food inflation has remained above the nation's general inflation rate since October 2021.

Changing behaviours will redefine new growth opportunities for retailers, especially among the value category as consumers become more cost-conscious. Brands will need to differentiate their products or provide a higher quality of service in the year ahead to capture consumer attention and dollars. Nearly half of Canadian consumers expect a better retailer experience as a result of current economic conditions, per a global Salesforce survey. Retailers will also look to manage costs in order to help with their bottom-line during these inflationary times.

**FIGURE 17: Household savings has lowered closer to pre-COVID average**




Source: Statistics Canada, February 2023.

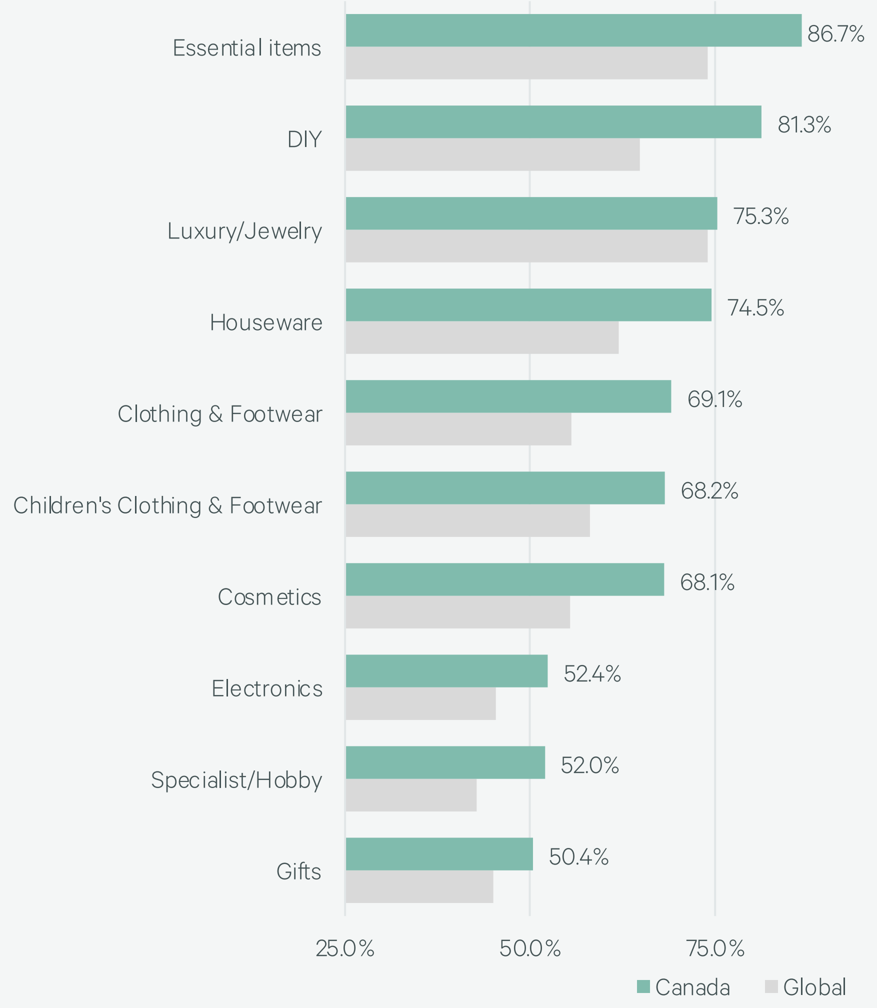
**FIGURE 18: Elevated levels of debt-to-disposable income to hinder spending**


Source: Statistics Canada, February 2023.

Changing behaviours will redefine new growth opportunities for retailers, especially among the value category as consumers become more cost-conscious. Brands will need to differentiate their products or provide a higher quality of service in the year ahead to capture consumer attention and dollars.

**FIGURE 19: Canadians prefer to shop in-person across all categories**

Respondent preference to shop in-person by category




Source: CBRE Global Live-Work-Shop Report, 2022.

# Role of the store more important than ever

Calls for seamless omnichannel experiences have resulted in symbiotic relationships between offline and online in recent years with retailers leveraging both to secure sales. Irrespective, the role of the physical store has never been more apparent or important.

Retail foot traffic levels have largely returned to pre-pandemic levels with consumers eager to engage in more lively, personalized shopping experiences than cannot be offered online. According to CBRE's Global Live-Work-Shop Report, Canadians prefer to shop in-person across all product categories, whereas the global average consumer prefers in-person across 7 of 10 categories. This corresponds with consumers' desire to try or see an item before buying.

The convenience of online shopping, however remains closely linked with the store. Physical stores are more frequently being used as a part of the supply chain, something that will increasingly be utilized to help increase efficiencies and save on logistics costs. Looking at it from a consumer perspective, CBRE's Live-Work-Shop Report found that 54% of North American respondents prefer to return online products in-store, further exhibiting not only the strong link between the two streams, but also highlighting the vital role that bricks and mortar will play in the continually evolving retail ecosystem.

06

# Industrial

The industrial sector has been, and will continue to be, one of the most sought-after types of Canadian real estate for users and investors in 2023. Despite a record amount of new supply expected to be delivered this year, market conditions will remain tight.

# Trends to Watch

## 01

Rent growth is forecast to moderate to more sustainable levels in 2023 as some tailwinds dissipate. However, growth will still outpace the historical average pace seen over the last 10 years.

## 02

A record amount of new supply is expected to deliver in 2023, but this will have a minimal impact on availability as robust pre-leasing and a relatively conservative approach to construction keeps market conditions tight.

## 03

The third-party logistics industry is expected to continue driving leasing activity in 2023 as more companies look to outsource their supply chain processes.

# Rent growth to moderate to more sustainable levels

For 11 consecutive years, industrial rental rates in Canada have risen non-stop amid growing demand and ever-shrinking amounts of available space. Over the last three years, additional tailwinds from global supply chain disruptions and accelerated e-commerce adoption pushed rent growth to unsustainable levels. In the last year alone, the national average rental rate surged 30.9% to $13.71 per sq. ft. While further rent growth is expected for 2023, the pace will return to more moderate levels.

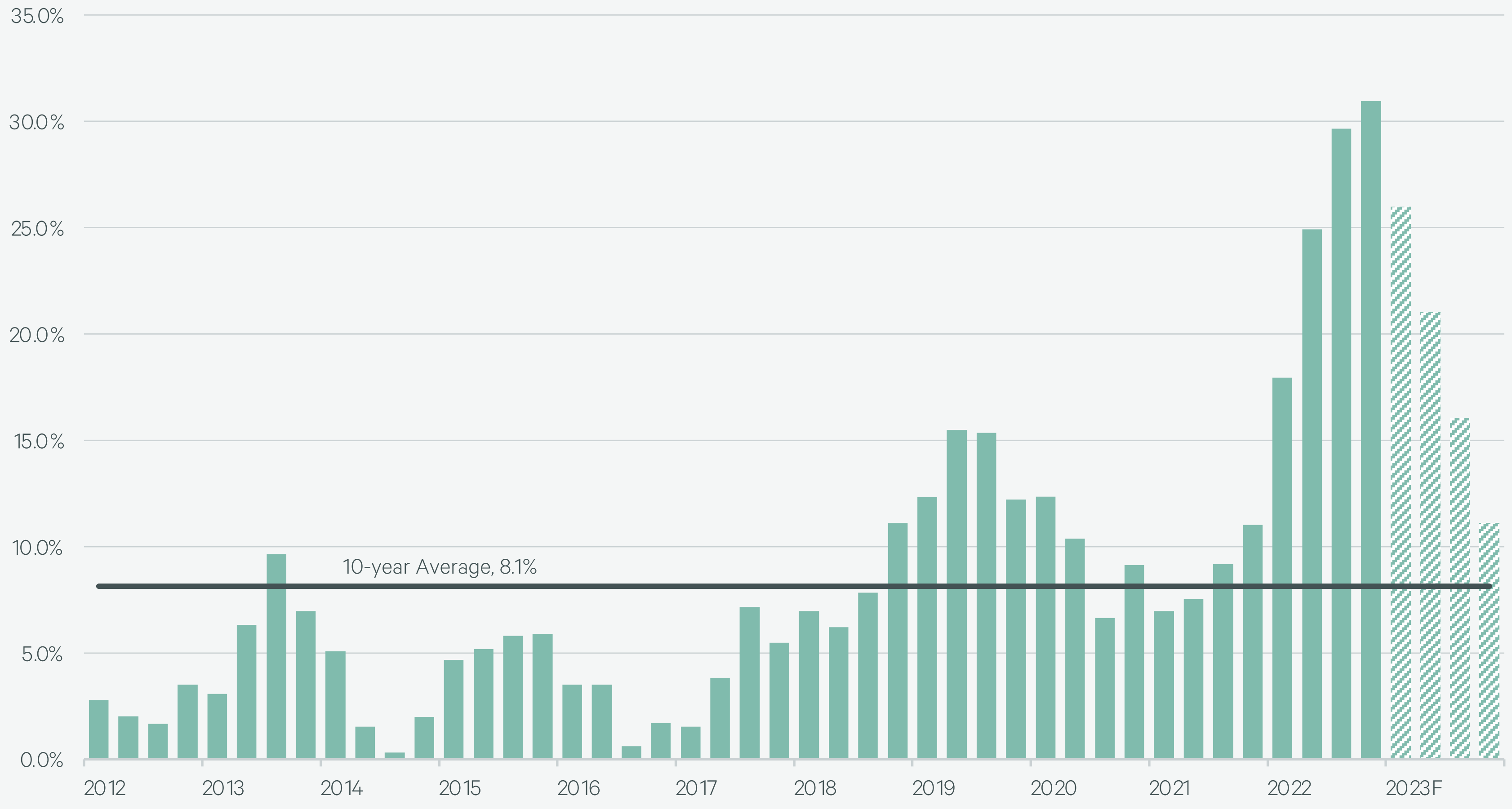
With the industrial market beginning to return to balance as well as an expected economic slowdown on the horizon, industrial rent growth in Canada is forecast to cool to a still-healthy 10% to 15% in 2023. Despite moderating, this pace of rental rate growth would still be higher than the average annual increase of the preceding 10 years in Canada. Rents will continue to be driven up by strong levels of demand as well as from the influx of new builds that command higher asking rents in part due to their greater associated construction costs. In particular for the highly desired big box segment, available space remains scarce and will come at a premium for those facilities.

10% - 15%

Expected industrial rent growth in 2023

**FIGURE 20: Net rental rate growth accelerates to new record pace**

National Average Asking Rent Growth, Year-over-Year




Source: CBRE Research, Q4 2022.

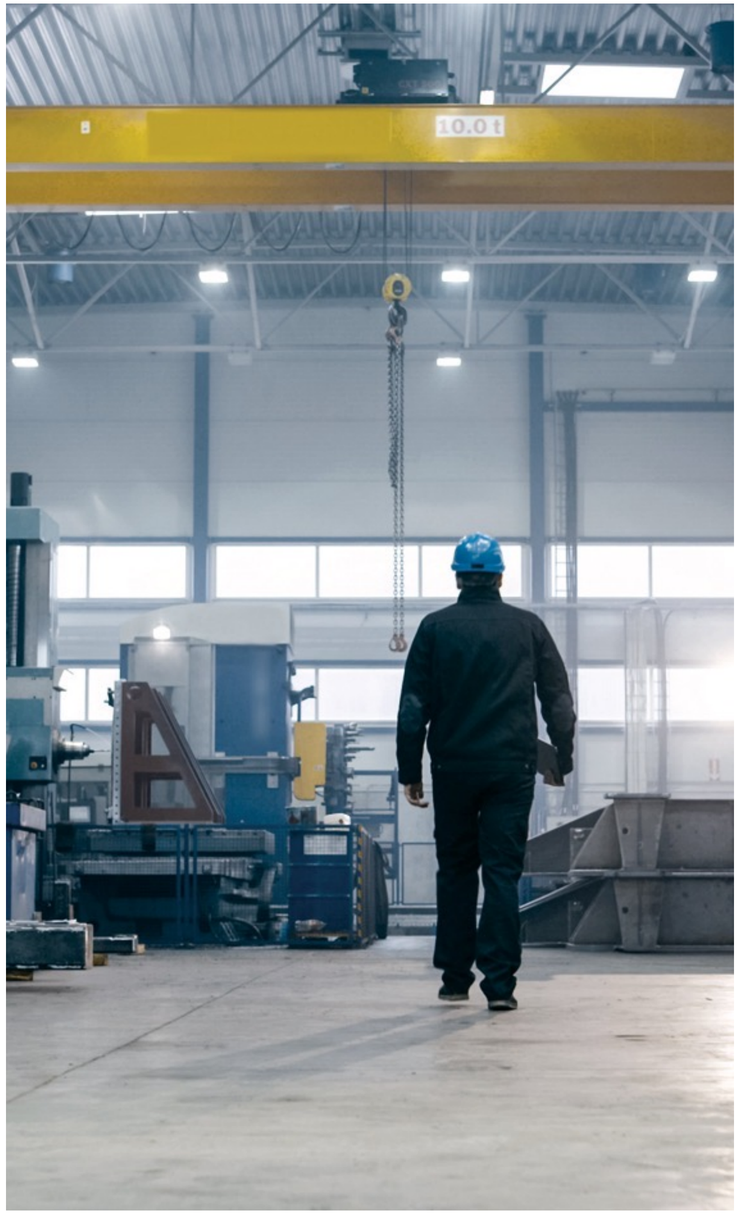
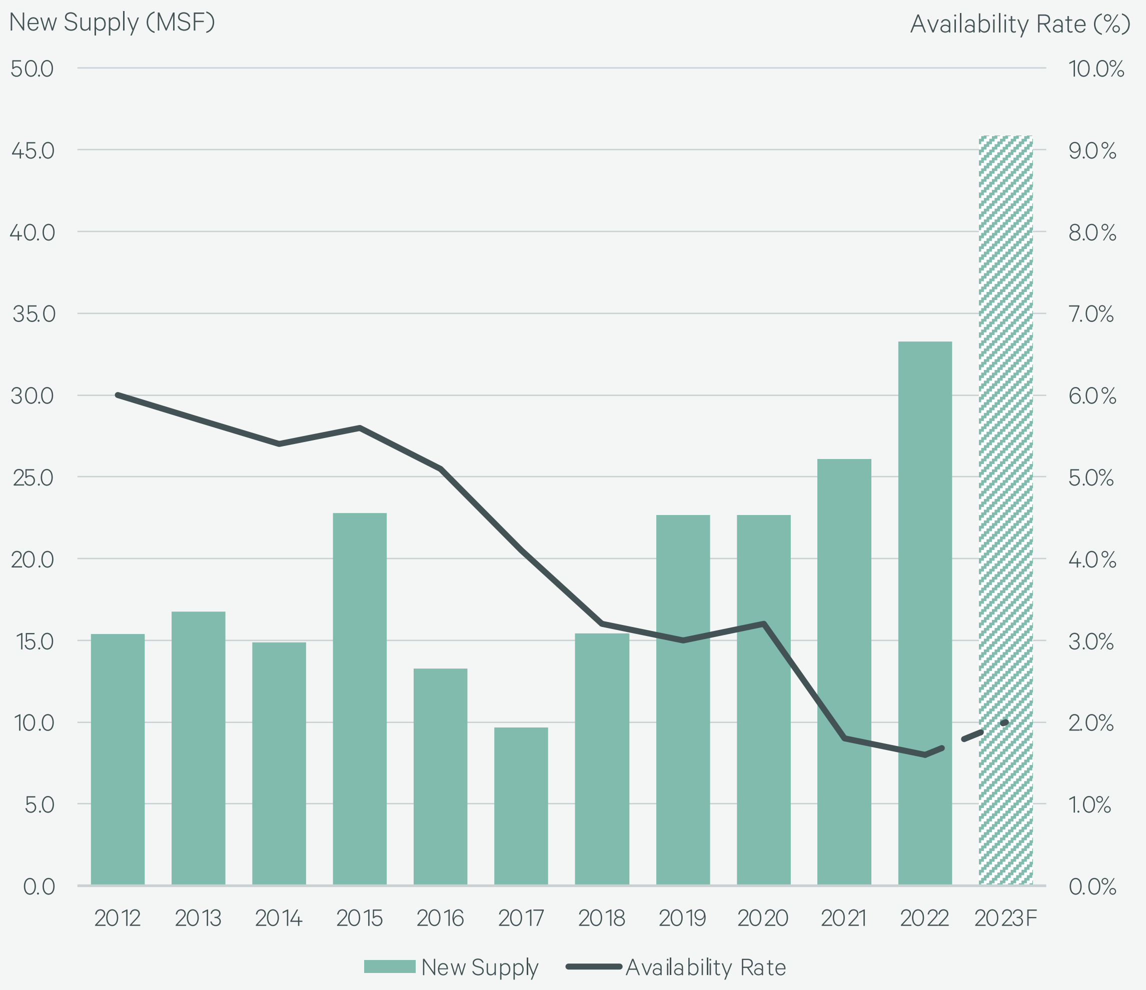



**FIGURE 21: Strong demand leading to record construction levels with influx of new supply in 2023**

National New Supply vs. Availability Rate




Source: CBRE Research, Q4 2022.

# Record amount of new supply, but minimal impact on availability

Persistently tight market conditions have led to the largest industrial development cycle in Canadian history. Despite a record 45.9 million sq. ft. of new supply expected to deliver in 2023, the Canadian industrial market will still remain undersupplied relative to demand. Robust pre-leasing activity and a relatively conservative approach to construction in Canada means the national availability rate is forecast to only rise modestly by 40 bps to 2.0% in 2023. This will be the first time in eight years, outside of the pandemic, where annual new supply will outpace net absorption.

Construction starts are expected to ease in 2023 as the markets across Canada work through their existing development pipelines. Speculative construction may also become unviable amid elevated cost of financing, higher construction costs and rising capitalization rates.

While demand is forecast to remain robust over 2023, there are expectations for an economic slowdown that could soften leasing activity this year. However, even in a worst case scenario where all remaining available space in projects under construction delivered vacant, the national availability rate would remain below the 3.0% mark.

# Third-party logistics industry to continue driving activity

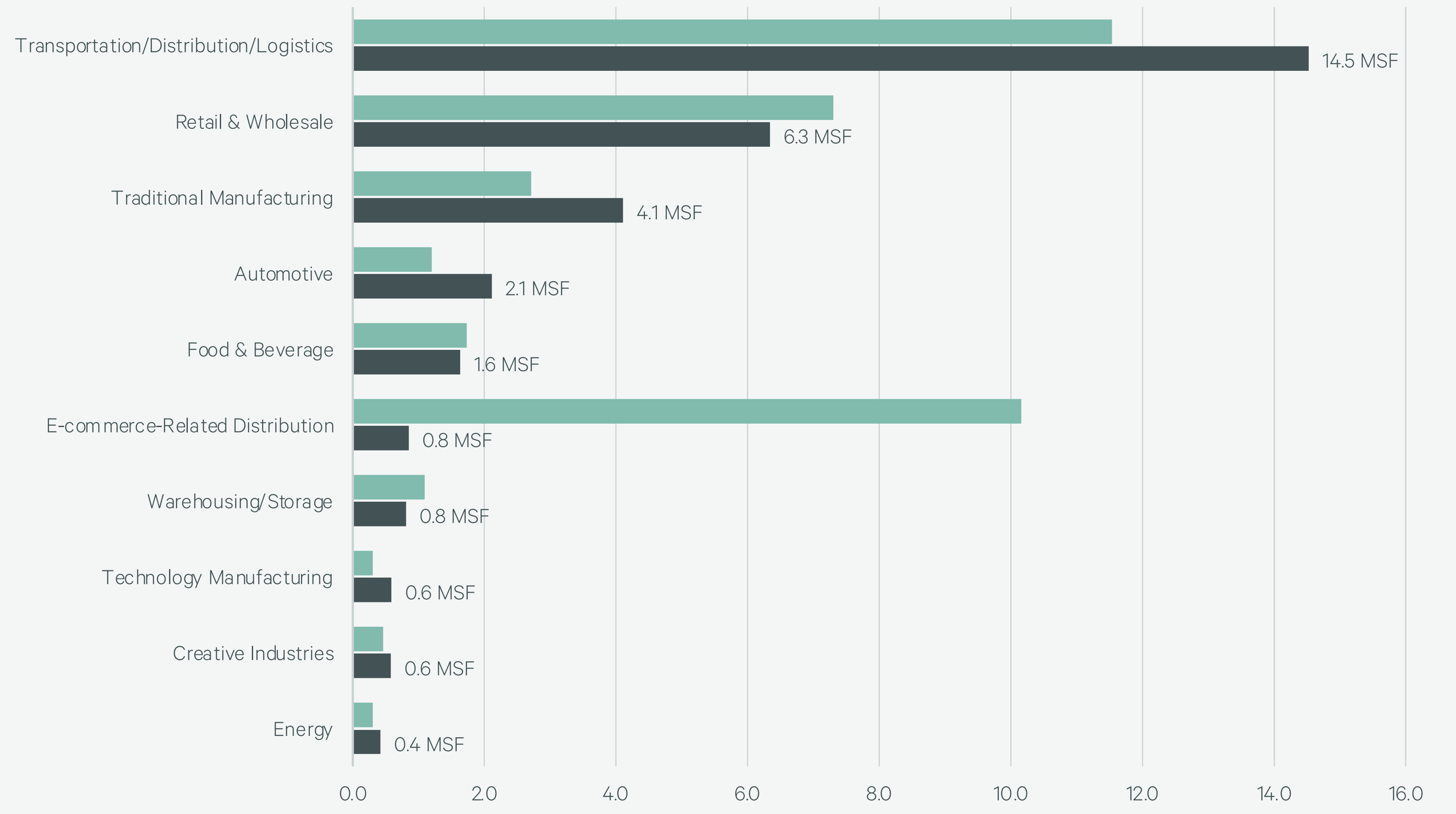
Third-party logistics firms have led new leasing activity in Canada over the last two years. Over 2021 and 2022, this industry accounted for over 26.1 million sq. ft. of transacted leasing activity in Canada, which was nearly double the next top industry of retail & wholesale over the same period. This trend is largely expected to continue into 2023 as more companies look to outsource their supply chain processes.

As evidenced over the pandemic, disruptions to supply chains and labour markets can quickly complicate a company's logistics operations. Third-party logistics firms offer a solution to organizations looking for greater flexibility, allowing them to focus on the core aspects of their business. Amid an uncertain environment around cost inflation, labour availability, future levels of demand and a slower overall economy, more companies are likely to turn to third-party logistics providers over 2023 to fulfil their supply chain needs.

Third-party logistics firms offer a solution to organizations looking for greater flexibility, allowing them to focus on the core aspects of their business.

**FIGURE 22: Third-party logistics leads notable transactions activity in 2022 while e-commerce-related distribution wanes**

Notable Transactions by Top 10 Industries (MSF Transacted)




Sum of notable transactions. Excludes renewals and extensions.
Source: CBRE Research, Q4 2022.

07

# Multifamily

The Canadian multifamily sector's outlook remains bright as demand is set to surge amid rising immigration, higher office attendance rates, and a housing affordability crisis elevating demand for lower cost housing options.

# Trends to Watch

## 01

Housing affordability has eroded to its worst level in over 30 years, leaving renting as the only viable housing option for an increasing number of Canadian families.

## 02

Demand for multifamily rental is expected to continue rising and outpace supply, further driving down vacancy rates and accelerating rental rate growth.

## 03

The Canadian multifamily sector faces increased regulatory risk in 2023 amid peak housing unaffordability and greater political scrutiny.

# Housing affordability crisis to boost demand for renting

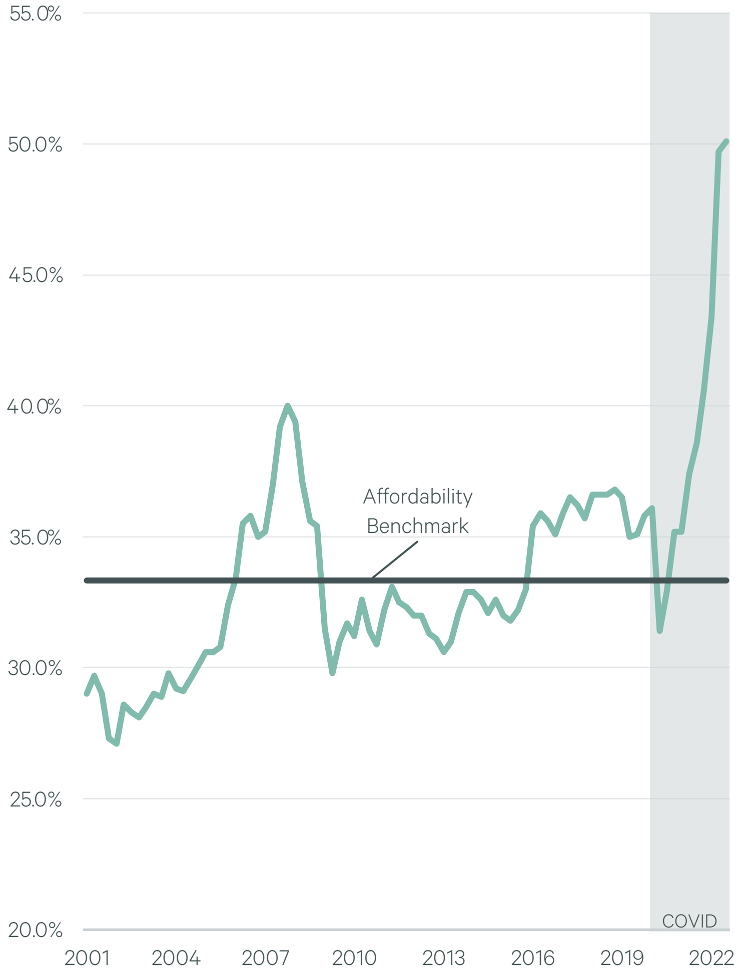
Homeownership remains vastly out of reach for many Canadians as housing affordability erodes to its worst level in over 30 years. Despite an ongoing housing market correction where national home prices have fallen nearly 18% from their record highs, housing costs have actually increased overall. The eight consecutive interest rate hikes enacted by the Bank of Canada led to a surge in mortgage costs and the current high inflation environment has also raised the operational costs of housing such as utilities and maintenance.

Household incomes have not kept up with surging homeownership costs over the last decade and this disparity remains going into 2023. The annual salaries required for the various types of housing to be considered affordable in major markets are currently far above what the median household earns. Renting, while still not necessarily affordable, remains the best housing option for many Canadians in these markets.

The housing affordability issue is also unlikely to be resolved quickly given the level of undersupply in the Canadian housing stock. The CMHC estimates that in order to meet expected levels of demand by 2030, Canada would need to build an extra 3.5 million homes above what is currently expected to deliver over this period. Meanwhile, housing starts currently average less than 250,000 homes per year, well below the needed pace.

**FIGURE 23: Canada housing affordability index**

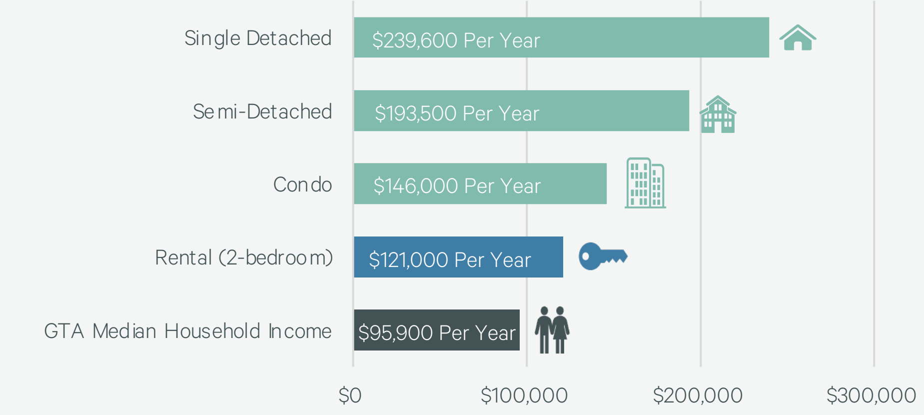
Housing-related costs as a % of average household income




Source: CBRE Research, Bank of Canada, 2022.

**FIGURE 24-a: GTA Housing Cost Overview**

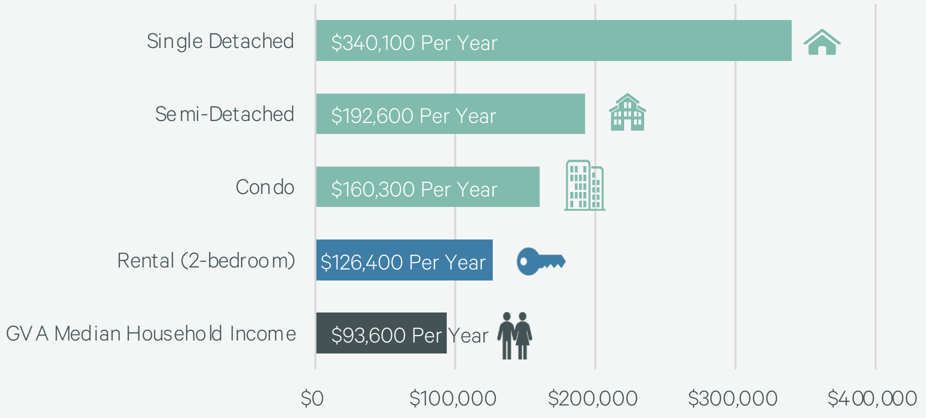
Annual Salary Requirements by Type of Housing




Source: CBRE Research, February 2023.

**FIGURE 24-b: GVA Housing Cost Overview**

Annual Salary Requirements by Type of Housing




Source: CBRE Research, February 2023.

## Rents poised to increase as vacancy falls to 20-year low

Growing demand for multifamily rental has compressed the overall vacancy rate in Canada from its pandemic highs down to a 20-year low of 2.0% in 2022. Elevated demand levels will continue to persist and drive vacancy down further in 2023, led by higher immigration targets and rising office attendance rates.

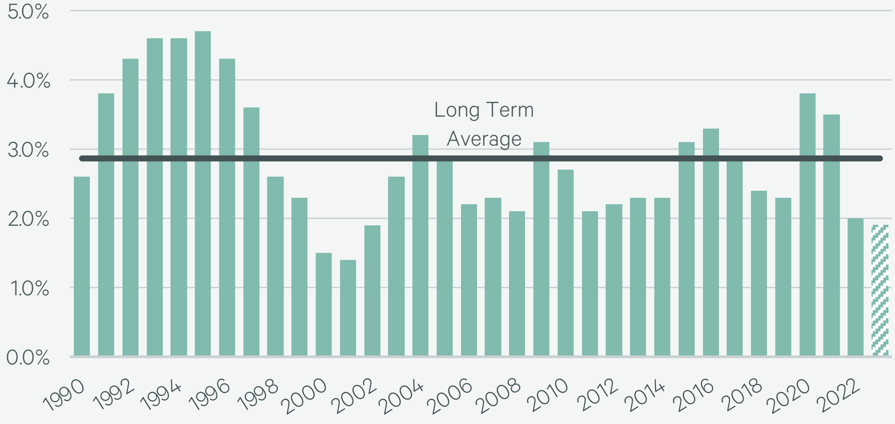
Canada's latest immigration plan has set new and higher targets for total admissions over the next three years. With the goal of welcoming 1.45 million new residents from 2023 to 2025, this will see annual immigration rise to its fastest pace on record. Major metropolitan areas, in particular, will see an outsized impact from the influx of new immigrants, who gravitate towards the larger cities and also have a higher tendency to rent.

Rising office attendance rates have also driven increased demand for urban rental as workers returning to the office look to minimize commute times. Although the return to the office has come about at a slower pace than initially expected, downtown physical occupancy rates are steadily on the rise and expected to continue on this upwards trajectory.

The continued supply-demand imbalance is expected to push multifamily rents higher in 2023, with rent growth forecast to remain largely in line with last year's record pace.

**FIGURE 25: Vacancy rate falls to 20-year low**

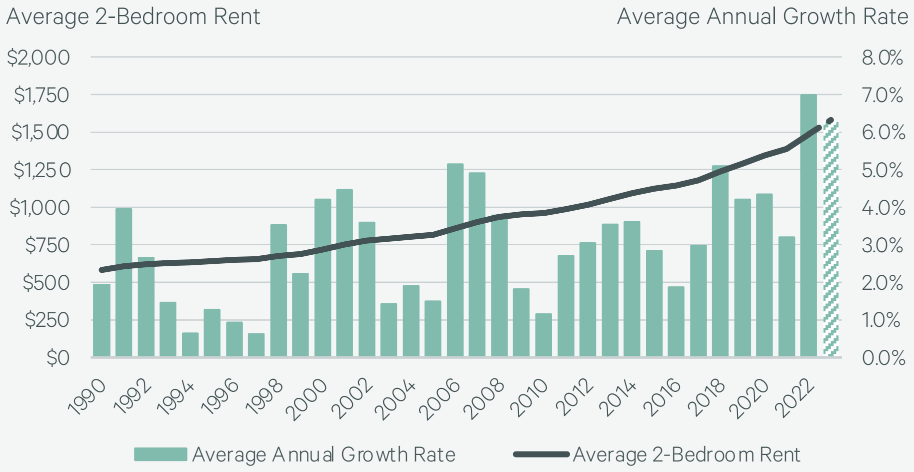
National Multifamily Vacancy Rate



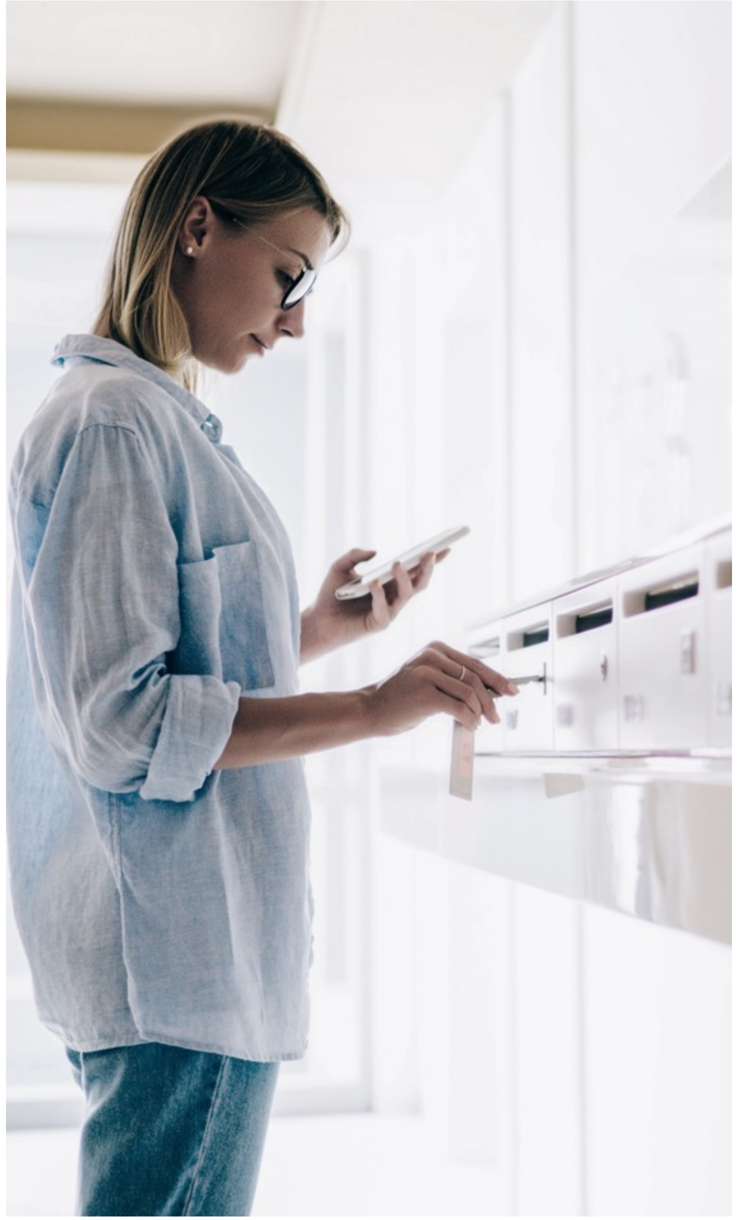

Source: CBRE Research, CMHC, 2023.

**FIGURE 26: Elevated rental growth poised to continue amid low vacancy**

National Multifamily Rent Growth




Source: CBRE Research, CMHC, 2023.



# Increased regulatory risk for the multifamily sector as housing affordability worsens

Housing affordability is an important issue for many Canadians and as such the multifamily sector may face considerable political and regulatory scrutiny. Last year, the federal government announced a plan to review what it referred to as the 'financialization of housing' in Canada by 'large corporate owners'. While details have yet to emerge, the review is intended to look at the tax treatment of REITs and implement policies to curb 'excessive profits' in the sector by the end of 2023.

There is wider acceptance of under-supply being the root cause of this imbalance, however more support will be needed if Canada is to see development rise to the levels recommended by the CMHC.

The multifamily sector also faces regulatory risk from provincial governments, particularly for those with cities facing the worst levels of housing affordability. While provinces such as British Columbia and Ontario have already implemented stricter housing regulations over the last couple of years, with affordability not improving, more policy changes could follow in 2023.

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# Canada Statistics

# Canada

## Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 266.70 | 270.31 | 275.64 | ▲ |
| Vacancy Rate (%) | 15.8% | 17.7% | 19.4% | ▲ |
| Net Absorption (million sq. ft.) | -4.02 | -2.21 | -0.10 | ▲ |
| New Supply (million sq. ft.) | 4.22 | 3.71 | 5.96 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $24.24 | $26.75 | $26.84 | ▲ |

| SUBURBAN | | | | |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 216.66 | 217.93 | 218.70 | ▲ |
| Vacancy Rate (%) | 15.8% | 16.4% | 16.9% | ▲ |
| Net Absorption (million sq. ft.) | -2.63 | -0.28 | -0.47 | ▼ |
| New Supply (million sq. ft.) | 1.68 | 1.32 | 0.77 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $18.18 | $18.36 | $18.45 | ▲ |

| OVERALL | | | | |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 483.36 | 488.24 | 494.34 | ▲ |
| Vacancy Rate (%) | 15.8% | 17.1% | 18.3% | ▲ |
| Net Absorption (million sq. ft.) | -6.65 | -2.49 | -0.57 | ▲ |
| New Supply (million sq. ft.) | 5.90 | 5.03 | 6.73 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $21.47 | $23.00 | $23.11 | ▲ |

## Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 1,907.26 | 1,940.32 | 1,986.18 | ▲ |
| Availability Rate (%) | 1.8% | 1.6% | 2.0% | ▲ |
| Net Absorption (million sq. ft.) | 53.13 | 35.53 | 37.15 | ▲ |
| New Supply (million sq. ft.) | 26.08 | 33.29 | 45.86 | ▲ |
| Net Asking Rent (per sq. ft.) | $10.47 | $13.71 | $15.24 | ▲ |
| Sale Price (per sq. ft.) | $218 | $278 | $270 | ▼ |
| Land Price (per acre, $ millions) | $1.34 | $1.50 | $1.40 | ▼ |

## Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $16,030 | $15,991 | $15,507 | ▼ |
| Total Retail Sales Growth | 8.5% | 1.5% | -1.7% | ▼ |
| New Supply (million sq. ft.) | 3.45 | 2.30 | 4.24 | ▲ |

## Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 3.5% | 2.0% | 1.9% | ▼ |
| 2-Bedroom Average Rent | $1,389 | $1,486 | $1,580 | ▲ |
| New Rental Supply (units) | 39,168 | 43,423 | 49,030 | ▲ |

All $ values are in CAD
Sources: CBRE Research, Oxford Economics, CMHC, 2023.

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# Regional Outlook

# Regional Outlook

## Select a market to read more



# Victoria

BACK TO MENU

## Shifts in office utilization driving the downtown sublease market

The downtown office market has experienced post-pandemic volatility. The return to office has been slow and met with employee resistance following the Government of British Columbia's announcement that they will not mandate their employees to work in-person. As such, the downtown office market is expected to sustain an increase in sublease availability. The continued supply of new downtown office space and availabilities within existing older stock will put downward pressure on lease rates.

## Desire for shorter work commutes stabilizing the suburban market

The suburban office market has stabilized and continues to improve. Suburban office space has outperformed and become more desirable than downtown given the shorter commute for employees. Comparably, the lack of available inventory and growing tenant demand will apply modest upward pressure on average asking lease rates.

## High interest rates pausing demand for industrial activity

To offset the 2.0% industrial availability rate in Greater Victoria, there are several new industrial strata developments currently under construction, including the Pacific Ridge Business Centre and the Langford Heights Business Park. They are expected to be completed over the next two years adding approximately 660,000 sq. ft. of new inventory. The influx of new supply and rising interest rates will create more market opportunities for prospective tenants.

## Retail demand focused on grocery-anchored

Tenant activity has remained strong within the region. Limited availability of retail space has helped keep net rental rates stable with strong demand from the QSR segment. Grocery-anchored retail continues to outperform, meanwhile larger spaces in malls and streetfront locations within the core are experiencing softened demand levels amid lower numbers of office workers and foot traffic. The increased cost of construction is continuing to add tension in the market, however, and is putting pressure on occupiers through higher net rental rates, creating opportunities for competitively priced existing supply.

### Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 6.49 | 6.58 | 6.58 | ◀▶ |
| Vacancy Rate (%) | 5.3% | 8.0% | 9.3% | ▲ |
| Net Absorption (million sq. ft.) | -0.34 | -0.09 | -0.09 | ◀▶ |
| New Supply (million sq. ft.) | 0.01 | 0.09 | 0.00 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $30.01 | $25.38 | $24.11 | ▼ |
| **SUBURBAN** | | | | |
| Inventory (million sq. ft.) | 2.51 | 2.60 | 2.67 | ▲ |
| Vacancy Rate (%) | 9.6% | 7.1% | 5.9% | ▼ |
| Net Absorption (million sq. ft.) | -0.15 | 0.15 | 0.09 | ▼ |
| New Supply (million sq. ft.) | 0.09 | 0.09 | 0.06 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $27.54 | $28.64 | $29.21 | ▲ |
| **OVERALL** | | | | |
| Inventory (million sq. ft.) | 9.00 | 9.18 | 9.25 | ▲ |
| Vacancy Rate (%) | 6.5% | 7.7% | 8.3% | ▲ |
| Net Absorption (million sq. ft.) | -0.49 | 0.06 | 0.00 | ▼ |
| New Supply (million sq. ft.) | 0.09 | 0.19 | 0.06 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $29.00 | $26.20 | $25.30 | ▼ |

### Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 9.03 | 9.22 | 9.51 | ▲ |
| Availability Rate (%) | 1.7% | 2.0% | 2.7% | ▲ |
| Net Absorption (million sq. ft.) | 0.13 | 0.16 | 0.22 | ▲ |
| New Supply (million sq. ft.) | 0.03 | 0.19 | 0.30 | ▲ |
| Net Asking Rent (per sq. ft.) | $16.03 | $17.63 | $18.51 | ▲ |
| Sale Price (per sq. ft.) | $342 | $380 | $380 | ◀▶ |
| Land Price (per acre, $ millions) | $1.90 | $2.00 | $2.00 | ◀▶ |

### Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $20,722 | $19,189 | $18,781 | ▼ |
| Total Retail Sales Growth | 5.3% | -5.5% | -0.3% | ▲ |

### Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 1.0% | 1.5% | 1.6% | ▲ |
| 2-Bedroom Average Rent | $1,571 | $1,699 | $1,820 | ▲ |
| New Rental Supply (units) | 1,904 | 897 | 2,240 | ▲ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

# Vancouver

## Downtown office vacancy to stabilize

Downtown office vacancy, while elevated by historical standards - driven by the largest supply cycle Vancouver has ever seen - is expected to stabilize at or near its current level this year. The remaining new development pipeline will be delivered in the year ahead, with strong leasing activity on the currently available space. The next new supply cycle meanwhile is years away.

## Older buildings will need refreshing

Amid a flight-to-quality by office tenants, Class A buildings will continue to perform well and rates will hold firm for quality space. Landlords of older, less amenitized buildings will need to invest capital to make them more competitive and attractive, especially with the return to office trend gaining momentum.

## Suburban office seeing lower vacancy

Suburban office vacancy in Metro Vancouver has remained lower, attributable to the popularity of the Mt. Pleasant and Broadway neighbourhoods among technology and life sciences companies, with employees enjoying the live-work-play offerings of these areas. Outside of those two submarkets, there has not been much development of new suburban office space, which will keep supply finite.

## Industrial demand stays strong

Demand for industrial product remains robust, in particular for large-format space for goods distribution and third-party logistics. But tenants face a critical shortage of that product. 2023 will see availability remain limited, leading to further increases to rental rates. The economics now make sense to purchase functionally obsolete industrial product in core markets like Richmond and Burnaby, tear it down and put up new best-in-class buildings.

## New retail openings coming

The retail sector has been performing well, with new store openings in the core, such as The Hub, and strong demand for suburban shopping centres, like Guildford Village in Surrey and the Amazing Brentwood in Burnaby. 2023 will see retail deliveries coming at The Post downtown and the expansion of Willowbrook Mall. It bodes well for another strong year.

### Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 24.92 | 25.96 | 27.78 | ▲ |
| Vacancy Rate (%) | 7.2% | 9.8% | 11.6% | ▲ |
| Net Absorption (million sq. ft.) | 0.36 | 0.18 | 1.15 | ▲ |
| New Supply (million sq. ft.) | 0.77 | 0.91 | 1.82 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $46.79 | $46.95 | $47.40 | ▲ |
| **SUBURBAN** | | | | |
| Inventory (million sq. ft.) | 24.91 | 25.14 | 25.25 | ▲ |
| Vacancy Rate (%) | 6.8% | 5.8% | 6.3% | ▲ |
| Net Absorption (million sq. ft.) | 0.65 | 0.47 | -0.01 | ▼ |
| New Supply (million sq. ft.) | 0.75 | 0.26 | 0.11 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $28.61 | $30.07 | $30.35 | ▲ |
| **OVERALL** | | | | |
| Inventory (million sq. ft.) | 49.83 | 51.10 | 53.03 | ▲ |
| Vacancy Rate (%) | 7.0% | 7.8% | 9.0% | ▲ |
| Net Absorption (million sq. ft.) | 1.02 | 0.65 | 1.13 | ▲ |
| New Supply (million sq. ft.) | 1.52 | 1.17 | 1.93 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $38.52 | $40.74 | $41.15 | ▲ |

### Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 205.49 | 208.95 | 217.64 | ▲ |
| Availability Rate (%) | 0.9% | 1.2% | 1.6% | ▲ |
| Net Absorption (million sq. ft.) | 6.08 | 2.91 | 7.64 | ▲ |
| New Supply (million sq. ft.) | 3.33 | 3.46 | 8.69 | ▲ |
| Net Asking Rent (per sq. ft.) | $16.33 | $20.83 | $23.10 | ▲ |
| Sale Price (per sq. ft.) | $500 | $650 | $600 | ▼ |
| Land Price (per acre, $ millions) | $6.00 | $6.00 | $4.80 | ▼ |

### Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $14,978 | $14,458 | $13,941 | ▼ |
| Total Retail Sales Growth | 14.2% | -1.4% | -1.5% | ▼ |
| New Supply (million sq. ft.) | 0.54 | 0.19 | 0.48 | ▲ |

### Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 1.2% | 0.9% | 0.8% | ▼ |
| 2-Bedroom Average Rent | $1,824 | $2,002 | $2,160 | ▲ |
| New Rental Supply (units) | 6,679 | 5,691 | 8,650 | ▲ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

BACK TO MENU

# Calgary

## Office buoyed by energy optimism

Energy companies are doing well from a cash flow perspective, leading to lots of optimism as it relates to the next 12 to 18 months. Supply shortages due to the war in Ukraine and other supply chain issues are driving prices up, directly filling the coffers of the energy sector. This is a good sign for the struggling office market.

## Diversification plan is still on

There are concerns surrounding the tech sector, which is going through a rationalization. While a number of tech companies are putting sublease spaces on the market at the moment, the industry's longer-term growth prospects are promising. Calgary is still moving toward creating a more diverse tenant base downtown.

## Industrial stays hot

Last year was the best year ever for Calgary industrial, and this is expected to continue into the first half of 2023. The distribution sector has taken on too much space and may be in for a pause as it digests what was consumed in 2022. Calgary is still looking good as there is pent up demand and new distribution warehouses continue to be announced because of the city's central location and lower cost base relative to other markets.

## Retail gains strength

A lot of major retailers in the restaurant space that had fallen by the wayside are coming back with new concepts for Calgary. Strong demand will build in the restaurant sector in 2023 as the effects of the pandemic wear off and activity returns to normal. A rebound in streetfront retail is also expected over the next 12 to 18 months.

## Multifamily faces opposing forces

The Calgary multifamily market is being shaped by two opposing forces: interest rate hikes are putting a damper on values, meanwhile net migration into the city is expected to be strong for 2023, creating demand for rental apartments, which in turn helps increase monthly rental rates. Expect to see a fair bit of multifamily deal activity, whether owners are refinancing or selling, as the overall market will be buoyed by net migration into Alberta.

### Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 43.22 | 43.06 | 42.43 | ▼ |
| Vacancy Rate (%) | 33.2% | 32.6% | 31.5% | ▼ |
| Net Absorption (million sq. ft.) | -1.76 | 0.18 | 0.20 | ▲ |
| New Supply (million sq. ft.) | 0.00 | 0.00 | 0.00 | ◀▶ |
| Class A Net Asking Rent (per sq. ft.) | $15.48 | $17.42 | $17.59 | ▲ |
| **SUBURBAN** | | | | |
| Inventory (million sq. ft.) | 26.16 | 26.01 | 26.01 | ◀▶ |
| Vacancy Rate (%) | 25.9% | 25.7% | 25.7% | ◀▶ |
| Net Absorption (million sq. ft.) | -0.68 | 0.02 | 0.00 | ▼ |
| New Supply (million sq. ft.) | 0.08 | 0.00 | 0.00 | ◀▶ |
| Class A Net Asking Rent (per sq. ft.) | $18.75 | $18.72 | $18.72 | ◀▶ |
| **OVERALL** | | | | |
| Inventory (million sq. ft.) | 69.37 | 69.07 | 68.44 | ▼ |
| Vacancy Rate (%) | 30.4% | 30.0% | 29.3% | ▼ |
| Net Absorption (million sq. ft.) | -2.44 | 0.20 | 0.20 | ◀▶ |
| New Supply (million sq. ft.) | 0.08 | 0.00 | 0.00 | ◀▶ |
| Class A Net Asking Rent (per sq. ft.) | $16.50 | $17.85 | $17.95 | ▲ |

### Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 141.83 | 149.18 | 154.31 | ▲ |
| Availability Rate (%) | 5.4% | 3.2% | 2.8% | ▼ |
| Net Absorption (million sq. ft.) | 7.27 | 10.13 | 5.63 | ▼ |
| New Supply (million sq. ft.) | 1.93 | 7.35 | 5.13 | ▼ |
| Net Asking Rent (per sq. ft.) | $8.65 | $10.58 | $11.75 | ▲ |
| Sale Price (per sq. ft.) | $180 | $200 | $205 | ▲ |
| Land Price (per acre) | $645,000 | $700,000 | $730,000 | ▲ |

### Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $17,854 | $17,773 | $17,380 | ▼ |
| Total Retail Sales Growth | 8.5% | 1.8% | -0.2% | ▼ |
| New Supply (million sq. ft.) | 0.87 | 0.51 | 0.51 | ▼ |

### Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 5.1% | 2.7% | 2.5% | ▼ |
| 2-Bedroom Average Rent | $1,355 | $1,466 | $1,570 | ▲ |
| New Rental Supply (units) | 2,996 | 4,760 | 3,770 | ▼ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

BACK TO MENU

# Edmonton

## Flight-to-quality continues

Office buildings that are well-amenitized will outperform those that are not. Edmonton's financial district is becoming more lively as people return to the office and leverage what's happening in the ICE District on event nights. The financial district is picking up and more energy is being created in the city centre.

Like other cities, Edmonton's core is still being impacted by hybrid work. There are more sublet opportunities coming available in the core in better buildings as tenants get a better understanding of their space needs. Tenants will have opportunities in 2023 that they may not have had in the past.

## Suburban office shows strength

The suburban office market is continuing to show signs of strength. Like in the core, landlords need to deliver premises in buildings with upgraded common facilities to give a tenant a reason to come to the building. Landlords who don't reinvest in their buildings will face increasing challenges in attracting and retaining tenants.

## A first look industrial option

Despite the record amount of new industrial supply delivered last year, the availability rate in Edmonton decreased. Supply has not kept up with the demand. Expect a similar year ahead in 2023, though not the same volume of space delivered.

There is good momentum in the industrial business: Western Canada, and Alberta in particular, is benefiting from the space constraints and higher-priced alternatives in B.C. Edmonton will continue to be that relief valve for what's happening on the West Coast, garnering more of a first look rather than being an option.

### Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 16.05 | 16.05 | 16.05 | ◀▶ |
| Vacancy Rate (%) | 21.1% | 23.0% | 24.1% | ▲ |
| Net Absorption (million sq. ft.) | -0.16 | -0.31 | -0.17 | ▲ |
| New Supply (million sq. ft.) | 0.00 | 0.00 | 0.00 | ◀▶ |
| Class A Net Asking Rent (per sq. ft.) | $20.48 | $21.16 | $20.10 | ▼ |
| **SUBURBAN** | | | | |
| Inventory (million sq. ft.) | 10.04 | 10.04 | 10.04 | ◀▶ |
| Vacancy Rate (%) | 22.4% | 21.0% | 21.1% | ▲ |
| Net Absorption (million sq. ft.) | -0.09 | 0.14 | -0.01 | ▼ |
| New Supply (million sq. ft.) | 0.00 | 0.00 | 0.00 | ◀▶ |
| Class A Net Asking Rent (per sq. ft.) | $17.72 | $18.89 | $18.89 | ◀▶ |
| **OVERALL** | | | | |
| Inventory (million sq. ft.) | 26.08 | 26.08 | 26.08 | ◀▶ |
| Vacancy Rate (%) | 21.6% | 22.2% | 23.0% | ▲ |
| Net Absorption (million sq. ft.) | -0.25 | -0.17 | -0.19 | ▼ |
| New Supply (million sq. ft.) | 0.00 | 0.00 | 0.00 | ◀▶ |
| Class A Net Asking Rent (per sq. ft.) | $19.76 | $20.58 | $19.90 | ▼ |

### Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 143.15 | 147.76 | 150.99 | ▲ |
| Availability Rate (%) | 7.0% | 5.5% | 5.6% | ▲ |
| Net Absorption (million sq. ft.) | 3.94 | 6.40 | 2.94 | ▼ |
| New Supply (million sq. ft.) | 1.21 | 4.61 | 3.23 | ▼ |
| Net Asking Rent (per sq. ft.) | $10.17 | $10.50 | $10.50 | ◀▶ |
| Sale Price (per sq. ft.) | $145 | $156 | $160 | ▲ |
| Land Price (per acre) | $615,000 | $633,000 | $650,000 | ▲ |

### Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $17,769 | $16,929 | $16,473 | ▼ |
| Total Retail Sales Growth | 8.6% | -2.7% | -0.8% | ▲ |
| New Supply (million sq. ft.) | 0.80 | 0.63 | 0.63 | ▲ |

### Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 7.3% | 4.3% | 4.0% | ▼ |
| 2-Bedroom Average Rent | $1,270 | $1,304 | $1,350 | ▲ |
| New Rental Supply (units) | 3,859 | 4,496 | 5,060 | ▲ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

BACK TO MENU

# Saskatoon

## Saskatoon's Class A office

Saskatoon's newest Class AA product is nearly filled with only two floors remaining in the 450,000 sq. ft. two-tower office development. In turn, this flight to-quality has created an opportunity to lease Class A office space at a more affordable rate. Financial and professional service firms, regional insurance and independent accountants continue to backfill this space. Saskatoon's mining and resource sectors meanwhile have provided a boost to the overall office market, with Nutrien headlining the River Landing development and BHP securing an expansion in the downtown core.

## Record low industrial availability

Saskatoon's availability rate reached a new record low of 3.1% in 2022. Industrial development grew in response and is expected to continue well into the new year. Permitting activity has drastically increased, with a large portion of the development being built to suit. The elevated cost of construction is largely offset by the rise in local net asking rates, giving developers comfort with the prospects of building on spec in 2023.

## Retail opportunities draw private investment

Private Canadian investors have continued to show interest in retail centres across Saskatchewan in their search for stable returns. Faced with the challenging interest rate environment, the demand for anchored, well-located retail properties in densely populated areas has persisted and continues to push values for high-quality assets. Leasing activity in neighbourhood centres continues to gain momentum as large national tenants start to consider their Saskatchewan expansion plans.

## Saskatchewan's economy is growing

Driven by a global surge in demand in potash and uranium markets as well as a significant improvement in crop production, Saskatchewan recorded a robust expansion with real GDP growing by 5.5% in 2022. Saskatchewan's agricultural sector had a strong year, justifying the large capital investment that has gone into the sector in recent years. Expenditures are expected to continue, most notably with the four canola-crushing plants that are projected to cost nearly $2 billion and create thousands of permanent, skilled labour jobs.

### Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 3.32 | 3.34 | 3.34 | ◀▶ |
| Vacancy Rate (%) | 24.4% | 22.8% | 19.9% | ▼ |
| Net Absorption (million sq. ft.) | 0.05 | 0.06 | 0.10 | ▲ |
| New Supply (million sq. ft.) | 0.27 | 0.01 | 0.00 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $19.15 | $21.31 | $20.25 | ▼ |
| **SUBURBAN** | | | | |
| Inventory (million sq. ft.) | 3.19 | 3.21 | 3.32 | ▲ |
| Vacancy Rate (%) | 14.2% | 12.4% | 10.6% | ▼ |
| Net Absorption (million sq. ft.) | 0.00 | 0.08 | 0.15 | ▲ |
| New Supply (million sq. ft.) | 0.01 | 0.02 | 0.11 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $22.56 | $23.13 | $23.87 | ▲ |
| **OVERALL** | | | | |
| Inventory (million sq. ft.) | 6.51 | 6.55 | 6.66 | ▲ |
| Vacancy Rate (%) | 19.4% | 17.7% | 15.3% | ▼ |
| Vacancy Rate (%) | 0.05 | 0.14 | 0.25 | ▲ |
| New Supply (million sq. ft.) | 0.28 | 0.04 | 0.11 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $21.77 | $21.93 | $21.50 | ▼ |

### Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 24.41 | 24.51 | 24.82 | ▲ |
| Availability Rate (%) | 5.2% | 3.1% | 2.9% | ▼ |
| Net Absorption (million sq. ft.) | 0.53 | 0.61 | 0.35 | ▼ |
| New Supply (million sq. ft.) | 0.07 | 0.10 | 0.32 | ▲ |
| Net Asking Rent (per sq. ft.) | $10.60 | $11.74 | $13.03 | ▲ |
| Sale Price (per sq. ft.) | $183 | $188 | $190 | ▲ |
| Land Price (per acre) | $540,000 | $550,000 | $555,000 | ▲ |

### Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $18,923 | $18,308 | $18,074 | ▼ |
| Total Retail Sales Growth | 11.7% | -1.3% | 0.5% | ▲ |

### Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 4.8% | 3.4% | 3.3% | ▼ |
| 2-Bedroom Average Rent | $1,183 | $1,243 | $1,300 | ▲ |
| New Rental Supply (units) | 814 | 828 | 1,110 | ▲ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

BACK TO MENU

# Winnipeg

### Office market faces looming vacancy

2023 is going to be pivotal for the Winnipeg office sector, with a large influx of space coming back to the market as a result of Wawanesa Mutual Insurance Co. moving to a new 300,000 sq. ft. HQ at True North Square. The insurer is consolidating several Class B locations in the downtown area, all of which will be coming back to the market. That will add some 300 bps of vacancy to the market in one fell swoop.

### Government workers coming back

A federal government policy that requires employees to be in the office two to three days a week as of March 31 should help to offset rising vacancies. Winnipeg's downtown vibrancy hinges on the commuting workforce coming into work on a daily basis, and so the government announcement is a positive development for the city centre.

### Industrial pipeline is packed

There's a hefty supply of new industrial space in the Winnipeg pipeline, about 1.0 million sq. ft. A big topic of conversation in 2023 is the serviced land that's finally coming to market at CentrePort Canada. Whether it's developers or owner-users, a large portion of that land will be transacting within this calendar year. This will help alleviate the limited supply of industrial space in Winnipeg.

### Remaining product is obsolete

While industrial availability hit 1.9% in Q4 2022, in reality the true vacancy rate is lower than that. Much of that excess supply is functionally obsolete and should be torn down or redeveloped. Looking at options in the industrial market with ceilings over 18', that availability rate is currently under 0.5%.

### Retail keeps rolling

Retail continues to be strong in Winnipeg. Downtown streetfront or low-grade interior mall locations are facing challenges. Those trying to find space in key power centres nodes are finding it tough as those opportunities don't currently exist with space leased as soon as it's available. There has been relatively no new retail development over the past few years, however that is set to change. There are a couple of projects coming up, including The Refinery District - 23 acres of planned retail.

## Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 9.95 | 9.87 | 10.17 | ▲ |
| Vacancy Rate (%) | 15.3% | 15.7% | 17.7% | ▲ |
| Net Absorption (million sq. ft.) | -0.38 | -0.07 | 0.05 | ▲ |
| New Supply (million sq. ft.) | 0.00 | 0.00 | 0.30 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $19.33 | $19.26 | $19.45 | ▲ |
| **SUBURBAN** | | | | |
| Inventory (million sq. ft.) | 4.08 | 4.13 | 4.13 | ◀▶ |
| Vacancy Rate (%) | 11.2% | 8.7% | 8.2% | ▼ |
| Net Absorption (million sq. ft.) | 0.03 | 0.10 | 0.02 | ▼ |
| New Supply (million sq. ft.) | 0.05 | 0.00 | 0.00 | ◀▶ |
| Class B Net Asking Rent (per sq. ft.) | $16.23 | $16.85 | $16.90 | ▲ |
| **OVERALL** | | | | |
| Inventory (million sq. ft.) | 14.03 | 14.00 | 14.30 | ▲ |
| Vacancy Rate (%) | 14.1% | 13.6% | 15.0% | ▲ |
| Net Absorption (million sq. ft.) | -0.35 | 0.03 | 0.07 | ▲ |
| New Supply (million sq. ft.) | 0.05 | 0.00 | 0.30 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $19.33 | $19.26 | $19.45 | ▲ |

## Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 85.36 | 85.89 | 86.67 | ▲ |
| Availability Rate (%) | 2.9% | 1.9% | 2.5% | ▲ |
| Net Absorption (million sq. ft.) | 1.32 | 1.27 | 0.26 | ▼ |
| New Supply (million sq. ft.) | 0.79 | 0.42 | 0.77 | ▲ |
| Net Asking Rent (per sq. ft.) | $8.52 | $10.54 | $10.90 | ▲ |
| Sale Price (per sq. ft.) | $118 | $134 | $134 | ◀▶ |
| Land Price (per acre) | $333,000 | $470,000 | $491,000 | ▲ |

## Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $15,924 | $15,650 | $15,306 | ▼ |
| Total Retail Sales Growth | 10.5% | -0.5% | -1.1% | ▼ |
| New Supply (million sq. ft.) | 0.07 | 0.03 | 0.07 | ▲ |

## Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 5.0% | 2.7% | 2.7% | ◀▶ |
| 2-Bedroom Average Rent | $1,317 | $1,350 | $1,390 | ▲ |
| New Rental Supply (units) | 2,247 | 2,356 | 2,990 | ▲ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

BACK TO MENU

# Southwestern Ontario

## Industrial will out-perform again

Expect another year of high-performing industrial markets, with availability across the region still hovering between 1% and 2%. Industrial has been a strong performing asset class over the past few years, and will continue to be resilient despite uncertainties in the economy. The coming year will see the continuation of meaningful investments and expansion of the industrial market throughout the region.

## EV battery plans creating buzz

The region has garnered attention with the investments that have come from government and venture capital for the electric vehicle battery industry in Southwestern Ontario. Windsor and Ingersoll stand to benefit, as does London, which is a contender for a Volkswagen EV battery plant. The clustering around these plants will create significant employment opportunities and growth across the region.

## Office market will struggle

Office markets in Southwestern Ontario continue to face challenges. There has been a fundamental shift in the way people work, and employers will struggle to navigate return to office and optimize use of their office space. Much like other markets, tenants are moving to smaller spaces that are high quality and amenity-rich. The flight-to-quality trend is alive and well and will take centre stage this year.

## Adaptive re-use could be an answer

Adaptive re-use might be the solution for older office buildings in the London and Kitchener markets. Landlords are assessing which Class B and C buildings might be suitable for some form of conversion. Not all buildings are candidates and there are significant financial investments to consider. But converting old office space to multifamily could reinvigorate our downtown areas and address housing supply challenges.

LONDON | WATERLOO REGION

### Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 4.77 | 4.77 | 4.77 | ◀▶ |
| Vacancy Rate (%) | 26.1% | 26.2% | 26.3% | ▲ |
| Net Absorption (million sq. ft.) | -0.31 | 0.00 | -0.01 | ▼ |
| New Supply (million sq. ft.) | 0.00 | 0.00 | 0.00 | ◀▶ |
| Class A Net Asking Rent (per sq. ft.) | $14.43 | $14.45 | $14.45 | ◀▶ |
| **SUBURBAN** | | | | |
| Inventory (million sq. ft.) | 1.61 | 1.61 | 1.61 | ◀▶ |
| Vacancy Rate (%) | 7.2% | 9.3% | 8.5% | ▼ |
| Net Absorption (million sq. ft.) | -0.01 | -0.03 | 0.01 | ▲ |
| New Supply (million sq. ft.) | 0.00 | 0.00 | 0.00 | ◀▶ |
| Class B Net Asking Rent (per sq. ft.) | $14.35 | $13.68 | $13.68 | ◀▶ |
| **OVERALL** | | | | |
| Inventory (million sq. ft.) | 6.37 | 6.37 | 6.37 | ◀▶ |
| Vacancy Rate (%) | 21.3% | 21.9% | 21.8% | ▼ |
| Net Absorption (million sq. ft.) | -0.32 | -0.04 | 0.01 | ▲ |
| New Supply (million sq. ft.) | 0.00 | 0.00 | 0.00 | ◀▶ |
| Class A Net Asking Rent (per sq. ft.) | $14.43 | $14.45 | $14.45 | ◀▶ |

### Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 39.84 | 41.39 | 41.65 | ▲ |
| Availability Rate (%) | 0.8% | 1.1% | 1.5% | ▲ |
| Net Absorption (million sq. ft.) | 0.61 | 1.42 | 0.11 | ▼ |
| New Supply (million sq. ft.) | 0.10 | 1.55 | 0.26 | ▼ |
| Net Asking Rent (per sq. ft.) | $7.76 | $8.95 | $9.80 | ▲ |
| Sale Price (per sq. ft.) | $152 | $219 | $220 | ▲ |
| Land Price (per acre) | $325,000 | $450,000 | $457,000 | ▲ |

### Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $16,861 | $16,595 | $15,845 | ▼ |
| Total Retail Sales Growth | 7.2% | 0.2% | -3.1% | ▼ |

### Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 1.9% | 1.7% | 1.7% | ◀▶ |
| 2-Bedroom Average Rent | $1,275 | $1,393 | $1,480 | ▲ |
| New Rental Supply (units) | 979 | 796 | 2,330 | ▲ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

BACK TO MENU

# Southwestern Ontario

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The region has garnered attention with the investments that have come from government and venture capital for the electric vehicle battery industry in Southwestern Ontario. Windsor and Ingersoll stand to benefit, as does London, which is a contender for a Volkswagen EV battery plant. The clustering around these plants will create significant employment opportunities and growth across the region.

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Office markets in Southwestern Ontario continue to face challenges. There has been a fundamental shift in the way people work, and employers will struggle to navigate return to office and optimize use of their office space. Much like other markets, tenants are moving to smaller spaces that are high quality and amenity-rich. The flight-to-quality trend is alive and well and will take centre stage this year.

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Adaptive re-use might be the solution for older office buildings in the London and Kitchener markets. Landlords are assessing which Class B and C buildings might be suitable for some form of conversion. Not all buildings are candidates and there are significant financial investments to consider. But converting old office space to multifamily could reinvigorate our downtown areas and address housing supply challenges.

LONDON | WATERLOO REGION

### Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 4.94 | 5.23 | 5.23 | ◀▶ |
| Vacancy Rate (%) | 25.0% | 22.8% | 24.7% | ▲ |
| Net Absorption (million sq. ft.) | -0.37 | 0.34 | -0.10 | ▼ |
| New Supply (million sq. ft.) | 0.19 | 0.30 | 0.00 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $26.17 | $28.07 | $30.00 | ▲ |
| **SUBURBAN** | | | | |
| Inventory (million sq. ft.) | 10.79 | 10.90 | 10.90 | ◀▶ |
| Vacancy Rate (%) | 8.9% | 7.8% | 8.4% | ▲ |
| Net Absorption (million sq. ft.) | -0.41 | 0.22 | -0.06 | ▼ |
| New Supply (million sq. ft.) | 0.02 | 0.11 | 0.00 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $17.29 | $16.80 | $16.80 | ◀▶ |
| **OVERALL** | | | | |
| Inventory (million sq. ft.) | 15.73 | 16.13 | 16.13 | ◀▶ |
| Vacancy Rate (%) | 14.0% | 12.7% | 13.7% | ▲ |
| Net Absorption (million sq. ft.) | -0.78 | 0.56 | -0.16 | ▼ |
| New Supply (million sq. ft.) | 0.21 | 0.41 | 0.00 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $22.28 | $22.65 | $23.80 | ▲ |

### Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 116.78 | 115.92 | 120.29 | ▲ |
| Availability Rate (%) | 0.6% | 0.9% | 1.4% | ▲ |
| Net Absorption (million sq. ft.) | 2.53 | 0.42 | 3.70 | ▲ |
| New Supply (million sq. ft.) | 0.69 | 0.78 | 4.38 | ▲ |
| Net Asking Rent (per sq. ft.) | $8.06 | $11.82 | $13.10 | ▲ |
| Sale Price (per sq. ft.) | $198 | $233 | $245 | ▲ |
| Land Price (per acre, $ millions) | $0.79 | $1.38 | $1.40 | ▲ |

### Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $14,909 | $14,496 | $13,798 | ▼ |
| Total Retail Sales Growth | 5.1% | -0.6% | -2.9% | ▼ |

### Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 2.0% | 1.2% | 0.9% | ▼ |
| 2-Bedroom Average Rent | $1,356 | $1,469 | $1,560 | ▲ |
| New Rental Supply (units) | 1,224 | 888 | 1,460 | ▲ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

BACK TO MENU

# Toronto

### Watching for a tech bounce back

One thing to watch in 2023 is whether the tech market bounces back. Tech is struggling and markets like Toronto and San Francisco are taking the brunt. The layoffs and downsizing in the tech industry have contributed to Toronto's low office occupancy rates and the uptick in the vacancy rate. Adding to the challenges for Canada's largest office market, major occupiers like the big banks are expected to put large blocks of space on the sublease market in early 2023.

### New buildings reign supreme

The flight-to-quality trend will continue to shape the Toronto office market. A significant portion of leasing completed over the last two years has been in the newer, high performance office buildings. Most of which are expected to come online over the next few years: Portland Commons, T3 Bayside, and CIBC Square Phase 2. The Well is nearly fully leased, albeit much of that space is now being subleased. It will be telling to see if the flight-to-quality trend continues. Will new builds continue to be in high demand or will they struggle given the influx of additional sublet space? This is the key question for the Toronto office market in 2023.

### Industrial leasing softens

It promises to be another strong year for the GTA industrial market, though leasing momentum is expected to be slightly softer than it was in 2022. There will still be strong interest but likely less bid depth for each individual property. Now that interest rates have likely stabilized, expect the land market and the owner-occupied / investor market to trade more freely as the year progresses. Land could also adjust downward from a price perspective, potentially by 10-20%.

### Rental rate growth cools

A flattening of the industrial rental growth rate curve is expected this year. Given the 40% year-over-year growth in 2022, a more modest forecast of 10% to 15% growth is anticipated for 2023. Expect compression of rates in Class B product as right now Class A and B assets, newer and older product, is priced at the same price point. Older product pricing should come off, creating a more logical gap between newer and older generation product.

## Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 92.39 | 94.90 | 98.14 | ▲ |
| Vacancy Rate (%) | 10.2% | 13.6% | 17.3% | ▲ |
| Net Absorption (million sq. ft.) | 0.17 | -1.06 | -0.75 | ▲ |
| New Supply (million sq. ft.) | 3.09 | 2.50 | 3.24 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $34.18 | $36.71 | $36.75 | ▲ |
| **SUBURBAN** | | | | |
| Inventory (million sq. ft.) | 77.88 | 77.45 | 78.04 | ▲ |
| Vacancy Rate (%) | 18.4% | 19.3% | 20.3% | ▲ |
| Net Absorption (million sq. ft.) | -2.46 | -0.54 | -0.32 | ▲ |
| New Supply (million sq. ft.) | 0.10 | 0.12 | 0.59 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $18.05 | $18.41 | $18.60 | ▲ |
| **OVERALL** | | | | |
| Inventory (million sq. ft.) | 170.27 | 172.35 | 176.17 | ▲ |
| Vacancy Rate (%) | 13.9% | 16.2% | 18.6% | ▲ |
| Net Absorption (million sq. ft.) | -2.29 | -1.60 | -1.07 | ▲ |
| New Supply (million sq. ft.) | 3.19 | 2.61 | 3.83 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $27.47 | $29.24 | $29.35 | ▲ |

## Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 806.91 | 817.51 | 836.19 | ▲ |
| Availability Rate (%) | 0.9% | 1.0% | 1.4% | ▲ |
| Net Absorption (million sq. ft.) | 20.01 | 11.05 | 14.84 | ▲ |
| New Supply (million sq. ft.) | 11.49 | 11.75 | 18.68 | ▲ |
| Net Asking Rent (per sq. ft.) | $12.30 | $17.17 | $19.30 | ▲ |
| Sale Price (per sq. ft.) | $322 | $385 | $365 | ▼ |
| Land Price (per acre, $ millions) | $2.12 | $2.17 | $1.95 | ▼ |

## Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $13,837 | $14,842 | $14,043 | ▼ |
| Total Retail Sales Growth | 7.2% | 9.5% | -3.5% | ▼ |
| New Supply (million sq. ft.) | 0.72 | 0.46 | 2.07 | ▲ |

## Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 4.6% | 1.6% | 1.2% | ▼ |
| 2-Bedroom Average Rent | $1,679 | $1,779 | $1,920 | ▲ |
| New Rental Supply (units) | 4,282 | 3,440 | 6,230 | ▲ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

BACK TO MENU

# Ottawa

## Office in flux

Expect lower demand on the office leasing side with tenants still struggling to bring employees back to the office. Hybrid work is here to stay and office attendance is averaging three days a week. But the public sector is returning to the office, with a plan that should be fully in place by end of March. This will have a significant impact on the office market. Adding to that is the restructuring of the tech sector, which is impacting Ottawa's suburban office market in Kanata.

## Sublease space supply will rise

There will be more sublease space coming to market in 2023. With tenants shedding space, the question is what will happen to the space left behind. Savvy landlords are investing in higher-end improvements to attract employees back to the office.

## Industrial rates are rising

New industrial supply is addressing the need for space in Ottawa: there are 21 industrial properties for a total 3.6 million sq. ft. either planned or under development in the area. That new supply comes with a higher rental rate. Average industrial rental rates have been rising the past two to three years and will continue to do so in 2023.

## Developers could hit the pause button

Developers plans might change in the face of rising financing and construction costs, and could refrain from building on a speculative basis. If this leads to softening demand, it could halt rental rate increases or delay developments. An Ottawa industrial market slowdown is possible in 2023.

### Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 18.99 | 18.99 | 19.05 | ▲ |
| Vacancy Rate (%) | 9.8% | 12.2% | 13.7% | ▲ |
| Net Absorption (million sq. ft.) | 0.08 | -0.47 | -0.22 | ▲ |
| New Supply (million sq. ft.) | 0.17 | 0.00 | 0.06 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $22.71 | $22.12 | $22.10 | ▼ |
| **SUBURBAN** | | | | |
| Inventory (million sq. ft.) | 22.87 | 23.14 | 23.14 | ◀▶ |
| Vacancy Rate (%) | 7.3% | 10.2% | 10.4% | ▲ |
| Net Absorption (million sq. ft.) | 0.11 | -0.69 | -0.06 | ▲ |
| New Supply (million sq. ft.) | 0.15 | 0.00 | 0.00 | ◀▶ |
| Class A Net Asking Rent (per sq. ft.) | $15.49 | $15.78 | $15.80 | ▲ |
| **OVERALL** | | | | |
| Inventory (million sq. ft.) | 41.86 | 42.13 | 42.19 | ▲ |
| Vacancy Rate (%) | 8.4% | 11.1% | 11.9% | ▲ |
| Net Absorption (million sq. ft.) | 0.18 | -1.16 | -0.28 | ▲ |
| New Supply (million sq. ft.) | 0.32 | 0.00 | 0.06 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $17.72 | $18.34 | $18.35 | ▲ |

### Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 35.03 | 35.82 | 36.23 | ▲ |
| Availability Rate (%) | 1.7% | 2.6% | 3.0% | ▲ |
| Net Absorption (million sq. ft.) | 3.61 | -0.04 | 0.25 | ▲ |
| New Supply (million sq. ft.) | 2.90 | 0.28 | 0.41 | ▲ |
| Net Asking Rent (per sq. ft.) | $12.12 | $13.61 | $14.95 | ▲ |
| Sale Price (per sq. ft.) | $233 | $281 | $285 | ▲ |
| Land Price (per acre, $ millions) | $0.68 | $1.03 | $1.05 | ▲ |

### Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $17,853 | $17,430 | $16,903 | ▼ |
| Total Retail Sales Growth | 7.7% | -0.5% | -1.4% | ▼ |
| New Supply (million sq. ft.) | 0.11 | 0.03 | 0.07 | ▲ |

### Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 3.4% | 2.1% | 1.8% | ▼ |
| 2-Bedroom Average Rent | $1,550 | $1,625 | $1,700 | ▲ |
| New Rental Supply (units) | 2,249 | 2,580 | 1,950 | ▼ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

BACK TO MENU

# Montreal

## Office vacancy will continue to rise

Montreal downtown office vacancy is expected to increase further in 2023. But it will be a tale of two markets: high-quality, well-amenitized space will be in high demand, versus Class B and C office product, which will struggle. A key focus will be around turnkey readiness. Amid concerns around construction costs and project delays, progressive landlords are realizing that offering turnkey suites is one way to increase the transaction volume.

## Industrial rental rate growth should ease

Montreal has had the highest rental rate increases over the past year, and it is expected to moderate in 2023. Rates haven't reached the top but their growth is slowing. Expect third-party logistics providers to reassess the amount of space they've taken in recent years, and potentially return some of that space back to the market, creating breathing room.

## Retail is resurgent

In-person shopping is having a resurgence in Montreal, as in other markets. But retail locations are often serving simply as a showroom for online purchases. This will continue to pose a challenge for retailers as they seek to measure the productivity of their brick and mortar locations.

## Multifamily faces challenges

Construction costs and interest rates will have a major impact on the Montreal multifamily market. A stabilizing of interest rates would allow for more certainty about where pricing will fall on apartment building sales. A softening labour market could help bring costs in line.

### Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 46.15 | 46.19 | 46.73 | ▲ |
| Vacancy Rate (%) | 13.7% | 16.0% | 17.4% | ▲ |
| Net Absorption (million sq. ft.) | -1.61 | -1.09 | -0.17 | ▲ |
| New Supply (million sq. ft.) | 0.00 | 0.00 | 0.54 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $24.97 | $25.61 | $25.75 | ▲ |
| **SUBURBAN** | | | | |
| Inventory (million sq. ft.) | 30.87 | 31.71 | 31.78 | ▲ |
| Vacancy Rate (%) | 16.6% | 18.3% | 18.7% | ▲ |
| Net Absorption (million sq. ft.) | 0.14 | -0.07 | -0.06 | ▲ |
| New Supply (million sq. ft.) | 0.49 | 0.64 | 0.07 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $16.45 | $16.40 | $16.30 | ▼ |
| **OVERALL** | | | | |
| Inventory (million sq. ft.) | 77.02 | 77.90 | 78.51 | ▲ |
| Vacancy Rate (%) | 14.8% | 17.0% | 17.9% | ▲ |
| Net Absorption (million sq. ft.) | -1.47 | -1.16 | -0.23 | ▲ |
| New Supply (million sq. ft.) | 0.49 | 0.64 | 0.61 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $21.31 | $21.47 | $21.50 | ▲ |

### Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 319.75 | 323.87 | 327.72 | ▲ |
| Availability Rate (%) | 0.9% | 1.2% | 2.0% | ▲ |
| Net Absorption (million sq. ft.) | 7.32 | 1.69 | 1.33 | ▼ |
| New Supply (million sq. ft.) | 3.50 | 2.92 | 3.85 | ▲ |
| Net Asking Rent (per sq. ft.) | $10.23 | $15.39 | $17.30 | ▲ |
| Sale Price (per sq. ft.) | $206 | $230 | $240 | ▲ |
| Land Price (per acre, $ millions) | $1.57 | $1.72 | $1.80 | ▲ |

### Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $15,096 | $15,315 | $14,955 | ▼ |
| Total Retail Sales Growth | 11.6% | 2.4% | -1.5% | ▼ |
| New Supply (million sq. ft.) | 0.14 | 0.44 | 0.36 | ▼ |

### Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 3.0% | 2.0% | 2.0% | ◀▶ |
| 2-Bedroom Average Rent | $932 | $1,022 | $1,110 | ▲ |
| New Rental Supply (units) | 12,965 | 16,405 | 14,360 | ▼ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

BACK TO MENU

# Quebec City

### Suburban market is increasingly desirable

Well-located office buildings in the suburbs have benefited from momentum stemming from local and provincial groups. Competitive rents and proximity to residential neighborhoods are allowing these assets to stand out. The suburbs will continue to garner demand with employees increasingly desiring flexibility through options that allow for a live-work-play balance.

### Employment outlook providing stability

Quebec City is among the top tech talent job creators in North America adding 10,700 jobs in the sector since 2016. Access to talent will continue to attract new companies to the market. Major occupiers, including various levels of government and insurance companies, should provide further stability in the market in the year ahead with respect to vacancy and rates.

### Revitalization of industrial space to come

The significant increase in rental rates will see more tenants looking to buy rather lease their next location. Limited space and a lack of developable land will continue to sustain rental growth well into 2023. Given strong demand amid low levels of existing and available supply, developers are anticipated to continue to move forward with projects on spec, meanwhile the city has plans to modernize industrial parks to redefine and maximize space.

### Infrastructure implications on real estate

Quebec City is at a turning point regarding decisions relating to infrastructure which will ultimately impact the repositioning of real estate assets. With perpetual discussions around the implementation of a Tramway line, the construction of a third link to the South Shore (whether for transit or vehicle), and mentions from the City Hall to diminish the highway's footprint, 2023 will be a decisive year for real estate opportunities.

## Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 6.62 | 7.72 | 7.72 | ◀▶ |
| Vacancy Rate (%) | 10.7% | 12.1% | 12.5% | ▲ |
| Net Absorption (million sq. ft.) | 0.03 | 0.07 | -0.03 | ▼ |
| New Supply (million sq. ft.) | 0.08 | 0.10 | 0.00 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $15.91 | $14.22 | $14.49 | ▲ |

| SUBURBAN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 10.56 | 11.64 | 11.68 | ▲ |
| Vacancy Rate (%) | 6.6% | 6.7% | 6.6% | ▼ |
| Net Absorption (million sq. ft.) | -0.12 | 0.15 | 0.05 | ▼ |
| New Supply (million sq. ft.) | 0.12 | 0.00 | 0.04 | ▲ |
| Class A Net Asking Rent (per sq. ft.) | $18.56 | $18.22 | $18.04 | ▼ |

| OVERALL | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 17.18 | 19.37 | 19.41 | ▲ |
| Vacancy Rate (%) | 9.4% | 8.8% | 8.9% | ▲ |
| Net Absorption (million sq. ft.) | -0.09 | 0.22 | 0.02 | ▼ |
| New Supply (million sq. ft.) | 0.20 | 0.10 | 0.04 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $16.64 | $15.20 | $15.25 | ▲ |

## Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 21.26 | 21.73 | 22.10 | ▲ |
| Availability Rate (%) | 2.0% | 2.1% | 1.9% | ▼ |
| Net Absorption (million sq. ft.) | 0.00 | 0.44 | 0.39 | ▼ |
| New Supply (million sq. ft.) | 0.05 | 0.47 | 0.37 | ▼ |
| Net Asking Rent (per sq. ft.) | $10.01 | $14.73 | $16.95 | ▲ |
| Sale Price (per sq. ft.) | $221 | $275 | $310 | ▲ |

## Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $18,592 | $18,049 | $17,814 | ▼ |
| Total Retail Sales Growth | 7.9% | -1.7% | -0.4% | ▲ |

## Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 2.5% | 1.5% | 1.7% | ▲ |
| 2-Bedroom Average Rent | $945 | $976 | $1,010 | ▲ |
| New Rental Supply (units) | 4,668 | 6,281 | 6,470 | ▲ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

BACK TO MENU

# Halifax

## Dynamic office market

Office vacancy is coming down, and it is anticipated there will be more sublease opportunities in the next 12 months as companies will look to downsize to accommodate new hybrid work strategies. With construction costs rising, tenants are looking for plug and play turnkey solutions versus building new office spaces. Tenants are beginning to commit to longer-term deals again. This is promising as it shows that organizations are seeing the value in having office space and bringing people back together.

## Shoppers want to be In stores

Neighbourhood grocery-anchored strip malls are attracting the lion's share of retail activity and restaurants will continue to be active this year, national quick service brands in particular. Retail should return to full strength in 2023, with consumers seeking more in-store experiences. People want to be in actual stores with prominent enclosed shopping centres attracting new-to-market fashion retailers.

## Port city = Strategic advantage

New product coming to market in 2023 will alleviate some of the demand pressure on the industrial market, which like others around the country has extremely limited availability of space. Being a port city in the midst of global supply chain shifts will continue to play to Halifax's strategic advantage. The city is seeing record numbers in port traffic; Saint John, New Brunswick and Montreal are seeing the same.

Rapidly rising rental rates and employment shortfalls are pushing companies with several locations to consolidate into new high cube warehouses. With a sub-2% availability, any available space is dated and inefficient. There has been pent up demand for higher clear height, new warehouse distribution facilities, and new multi-tenant projects are under construction.

## Population boom bolsters multifamily

With strong population growth in the Atlantic Region there is a requirement for new multifamily supply, and as such construction activity is expected to continue. The Halifax Regional Municipality is now close to 500,000 people as new arrivals continue to flock to the region, driving multifamily demand and development. New product is achieving higher rents, propelling overall market rent growth. Interest rates, construction costs and rent caps will continue to be a challenge. But the demand is there and shows no signs of slowing down.

### Office

| DOWNTOWN | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 5.33 | 5.31 | 5.31 | ◀▶ |
| Vacancy Rate (%) | 20.3% | 18.8% | 20.0% | ▲ |
| Net Absorption (million sq. ft.) | -0.04 | 0.09 | -0.06 | ▼ |
| New Supply (million sq. ft.) | 0.00 | 0.00 | 0.00 | ◀▶ |
| Class A Net Asking Rent (per sq. ft.) | $19.37 | $18.99 | $18.85 | ▼ |
| **SUBURBAN** | | | | |
| Inventory (million sq. ft.) | 7.46 | 7.81 | 7.81 | ◀▶ |
| Vacancy Rate (%) | 11.9% | 12.8% | 12.5% | ▼ |
| Net Absorption (million sq. ft.) | 0.09 | 0.11 | 0.02 | ▼ |
| New Supply (million sq. ft.) | 0.03 | 0.20 | 0.00 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $15.88 | $16.34 | $16.40 | ▲ |
| **OVERALL** | | | | |
| Inventory (million sq. ft.) | 12.79 | 13.11 | 13.11 | ◀▶ |
| Vacancy Rate (%) | 15.4% | 15.2% | 15.5% | ▲ |
| Net Absorption (million sq. ft.) | 0.05 | 0.20 | -0.04 | ▼ |
| New Supply (million sq. ft.) | 0.03 | 0.20 | 0.00 | ▼ |
| Class A Net Asking Rent (per sq. ft.) | $18.14 | $17.74 | $17.70 | ▼ |

### Industrial

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Inventory (million sq. ft.) | 13.12 | 14.02 | 14.48 | ▲ |
| Availability Rate (%) | 2.2% | 1.2% | 1.3% | ▲ |
| Net Absorption (million sq. ft.) | 0.44 | 0.29 | 0.45 | ▲ |
| New Supply (million sq. ft.) | 0.12 | 0.17 | 0.45 | ▲ |
| Net Asking Rent (per sq. ft.) | $8.94 | $9.93 | $11.75 | ▲ |
| Sale Price (per sq. ft.) | $130 | $250 | $250 | ◀▶ |
| Land Price (per acre) | $350,000 | $500,000 | $700,000 | ▲ |

### Retail

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Total Retail Sales per Capita | $18,880 | $17,951 | $17,450 | ▼ |
| Total Retail Sales Growth | 14.1% | -2.5% | -1.0% | ▲ |
| New Supply (million sq. ft.) | 0.20 | 0.02 | 0.06 | ▲ |

### Multifamily

| | 2021 | 2022 | 2023F | YoY |
|---|---|---|---|---|
| Vacancy Rate | 1.0% | 1.0% | 1.0% | ◀▶ |
| 2-Bedroom Average Rent | $1,335 | $1,449 | $1,560 | ▲ |
| New Rental Supply (units) | 1,688 | 2,011 | 2,230 | ▲ |

Sources: CBRE Research, CMHC, Oxford Economics, 2023.

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